



SCHOOL OF GRADUATE STUDIES

**FACTORS AFFECTING THE QUALITY OF EXTERNAL AUDIT
SERVICE: EVIDENCE FROM PRIVATE AUDIT FIRMS OF ETHIOPIA**

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WOLKITE, ETHIOPIA



Wolkite University
School of Graduate Studies

**Factors Affecting the Quality of External Audit Service: Evidence from
Private Audit Firms of Ethiopia**

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APPROVAL SHEET

School of Graduate Studies

Factors Affecting the Quality of External Audit Service: Evidence from Private Audit Firms of Ethiopia

As mentioned on the Board of Examiners of the MA thesis open defense examined. We certified that we have read and evaluated the thesis prepared by Seada Mohammed and examined the candidate. We recommend that the thesis be accepted as fulfilling the thesis requirements for the degree of accounting and finance

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DECLARATION

I declare that this work has not be previously submitted and approved for the award of a degree by this or any other university. I, Seada Mohammed, have carried out a research proposal on “Factors Affecting the Quality of External Audit Service: Evidence from Private Audit Firms of Ethiopia”. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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ABSTRACT

This research delves into the determinants influencing external audit quality in Ethiopian private audit firms, concentrating on five pivotal dimensions of auditors' professional ethics: independence, competence, objectivity, integrity, and confidentiality of information. The study, encompassing 120 private audit firms, adopts a mixed research methodology and employs ordinal logistic regression to analyze the intricate relationships between these ethical dimensions and the perceived Quality. The researcher was employed a quantitative research method which allows gathering numerical data, measuring variables, predicting and using statistical procedures. To determine the relationship among the variables and to test the research hypothesis correlation and regression analysis method was used by meeting the ordinary least square (OLS) assumptions of the linear regression. The correlation analysis revealed significant positive associations between auditor competence, integrity, objectivity, confidentiality of information, and the overall external audit quality. The model's robust fit, with an 88.4% explanation of variability in external audit quality, underscored the effectiveness of the selected determinants in predicting audit outcomes. Multiple linear regression analysis identifies competence and integrity as substantial predictors of external audit quality, supported by robust methodology as indicated by high R-square values and adherence to assumptions. In conclusion, this research highlights the crucial roles of auditor competence and integrity in external audit quality in Ethiopian private audit firms. While auditor independence showed no significant correlation, the study emphasizes context-specific factors. It offers valuable insights and practical recommendations for improving audit practices. Implementing these can enhance audit quality and the integrity of the profession in Ethiopia. The study recommended targeted improvements in auditor competence and integrity to enhance overall external audit quality in Ethiopia. Acknowledging limitations such as a focused scope and methodological constraints,

the research underscores the need for cautious interpretation of results while offering valuable insights for the improvement of auditing practices in the Ethiopian private sector.

Keywords: Audit, Quality, Factor, Private firms

TABLE OF CONTENT

APPROVAL SHEET	i
DECLARATION	ii
ACKNOWLEDGMENT	iii
ABSTRACT	iv
LIST OF TABLE	viii
LIST OF FIGURE	ix
LIST OF ACRONYMS	x
LIST OF TABLE	xi
LIST OF FIGURE	xii
LIST OF ACRONYMS	2
CHAPTER ONE	1
INTRODUCTION	1
1.1. Background of the Study	1
1.2. Statement of the problem	3
1.3 Objective of the Study	4
1.3.1 General objective	4
1.3.2 Specific objectives	4
1.4 Hypothesis Testing	4
1.5 Significance of the Study	5
1.6 Scope of the Study	5
1.7 Limitation of the Study	6
1.8 Operational Definition	7
	7

1.9 Organization of the Study	7
CHAPTER TWO	8
REVIEW OF RELATED LITERATURE	8
2.1 Theoretical Literature Review	8
2.1.1 Concept of auditing	8
2.1.2 Historical Development of Auditing	9
2.1.3. Development of Auditing in Ethiopia	10
2.2. Audit Quality	11
2.3. Theory of Auditing	13
2.3.1 Agency Theory	13
2.3.2 Stakeholder Theory	13
2.3.3 Accounting Theory	14
2.3.4 Institutional Theory	14
2.4. Determinants of External Audit Quality	15
2.4.1 Auditors Competence and Quality of auditing	15
2.4.2 Auditors Independence and Quality of Auditing	16
2.4.3 Auditor Objectivity and Quality of Auditing	17
2.4.4 Auditors Integrity and Quality of Auditing	18
2.4.5 Confidentiality of Information and Quality of audit	19
2.5. Empirical Review	19
2.6. Conceptual Framework	21
CHAPTER THREE	22
RESEARCH METHODOLOGY	22
Introduction	22
3.1. Research Approach	22
3.2. Research Design	22
3.3. Sources and Data Collection Tools	23
3.4. Sampling Size Determination Method	23
3.5 Data Analysis	23
3.6 Measurement of Variables	24
3.6.1 Measurement of Independent Variables	24

3.6.2 Measurement of Dependent Variable	26
3.7. Validity and Reliability	26
3.8 Ethical Consideration	27
CHAPTER FOUR	28
RESULT AND DISCUSSION	28
4.1 Response Rate	28
4.2. Demographic Characteristics	28
4.3. Descriptive Analysis	31
4.3.1 Auditor Competence	31
4.3.2 Auditor Independence	33
4.3.3 Auditor Objectivity	35
4.3.4 Integrity of Auditors	36
4.3.4 Confidentiality of Information	38
4.3.5 Audit Quality	40
4.4. Analysis of Correlation Results	42
4.5 Inferential analysis	45
4.5.1. Assessment of Multiple Linear Regression Model Assumptions	45
4.5.3. Multiple Linear Regression Analysis	47
Model summary	47
CHAPTER FIVE	51
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	51
5.1. Summary	51
5.2. Conclusion	52
5.3. Recommendation	53
REFERENCES	54
QUESTIONNAIRES	58

LIST OF TABLE

Table 1: Auditor competence for quality of external audit service	31
Table 2: Auditor independence for quality of external audit service	33
Table 3: Auditor objectivity for quality of external audit service	35
Table 4: Auditor integrity for quality of external audit service	36
Table 5: Confidentiality of information for quality of external audit service	38
Table 6: Audit quality	40
Table 7. Interpretation of (r) value	43
Table 8: Correlation between determinants of EAQ with EAQ	44
Table 9: Multicollinearity test	45
Table 10: Model summary of coefficient of determination	47
Table 11: Regression results	48

LIST OF FIGURE

Figure 1 Conceptual framework	21
Figure 2: Gender and Age of the Respondent	28
Figure 3 Educational Status and Experience of Respondents	29
Figure 4: The field of study and their professionals	30

LIST OF ACRONYMS

ASC	Audit Service Corporation
CPA	Certified Public Accountants
DW	Durbin-Watson stat
DW	Durbin-Watson stat
EU	European Union
GDP	Gross Domestic Product
OLS	Ordinary Least Square
SPSS	Statistical Package for Social Science

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Table 2: Auditor independence for quality of external audit service	33
Table 3: Auditor objectivity for quality of external audit service	35
Table 4: Auditor integrity for quality of external audit service	36
Table 5: Confidentiality of information for quality of external audit service	38
Table 6: Audit quality	40
Table 7. Interpretation of (r) value	43
Table 8: Correlation between determinants of EAQ with EAQ	44
Table 9: Multicollinearity test	45
Table 10: Model summary of coefficient of determination	47
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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The global financial market witnessed several financial scandals and failures in recent years. Well-known firms, such as Enron and Arthur Andersen, and the global financial crises of 2008 are the main examples of such failures (Mwangi, 2017). As a result of these financial scandals, corporate governance, ownership structure and other tools have been introduced to reduce and constrain the prevalence of financial problems, to protect shareholders' interests and to enhance the quality of the monitoring mechanisms, such as external audit quality (Man and Wong, 2013).

Audit quality is of a great importance and unquestionable for its requirement as almost all financial statements need to pass through the process of auditing to be examined whether or not the financial statements present fairly in all material respects the financial position and results of the companies in question (DeZoort et al., 2012). Audit quality is normally related to the ability of the auditor to identify material misstatement in the financial statements and their willingness to issue an appropriate and unbiased audit report based on the audit result (Suseno, 2013).

There is a vast body of literature relating to audit quality and its measurement, no single generally accepted definition of generally accepted definition or generally accepted measure of audit quality has emerged (Al-khaddash et al., 2003). Audit quality is defined in different terms by different Authors even though it encompasses common ideas. Audit quality is the level of assurances the probability financial statements contain no material omissions or misstatements (Endaya & Hanefah, 2016). However more than others' definition of audit quality, it is perceived that the definition given by De Angelo is a paramount. Audit quality is the joint probability that an auditor will both discover and report a breach in the client's accounting system (De Angelo,

1981). An audit will be successful in changing expectations and hence reducing the opportunistic behavior costs (agency costs) borne by the manager only if it is expected that the auditor will report some discovered breaches of contract (Adhista, 2015).

The accounting and auditing profession plays a critical role in promoting financial transparency, investor confidence, and economic stability. External audit services are instrumental in verifying the accuracy and reliability of financial statements, assuring stakeholders that the reported financial information is free from material misstatements or fraud. The quality of external audits directly impacts the level of trust investors place in financial statements, influencing their investment decisions and the overall stability of financial markets (DeFond, 2019).

In Ethiopia, like many other developing countries, the accounting and auditing profession has a significant effect on expansion of the economy, increased foreign investment, and heightened regulatory requirements has contributed to a growing demand for high-quality external audit services (Mwiti&Murimi, 2021; Tufa *et al.*, 2022). However, concerns persist regarding the quality of external audit services provided by private audit firms in Ethiopia. It is essential to understand the factors that affect audit quality to address these concerns effectively (Ibrahim *et al.*, 2020).

High-quality external audits are crucial for ensuring the credibility and reliability of financial information, thereby enhancing investor confidence and promoting capital market efficiency. They provide an objective assessment of an organization's financial statements and help stakeholders make informed decisions. However, ensuring the delivery of effective and reliable external audit services is a complex task influenced by various factors that can impact the quality of audit outcomes (DeZoort& Harrison, 2016).

While extensive research has delved into the determinants of audit quality across diverse contexts, as evidenced by studies such as those conducted by Tufa *et al.* (2022), DeFond (2019), and Mwiti & Murimi (2021), there exists a conspicuous void in the literature concerning the factors influencing audit quality within private audit firms in Ethiopia. This research gap is noteworthy, particularly in light of the distinctive economic, institutional, and cultural factors that characterize the Ethiopian context. Recognizing the imperative to comprehend the unique challenges and opportunities confronting auditors in delivering high-quality external audit

services in Ethiopia, it is imperative to undertake research specific to the country. In response to this research gap, this study seeks to provide a robust contribution by investigating and analyzing the factors that impact the quality of external audit services within private audit firms in Ethiopia.

1.2. Statement of the problem

The quality of audit depends on auditor's independence in appearance and fact, auditor's competence and qualification, internal control of the client audited, accountability of the audit firm, audit fee, audit tenure and number of staffs assigned per engagement. However, several factors like profit motive of audit firms, lack of accountability, independency threat due to long tenure with client, threat of replacement of an auditor, lack of dedication to their profession and responsibility impair audit quality (Tepalagul & Lin, 2015; Kartika et al., 2019; Meidawati & Assidiqi, 2019; Basseyy et al., 2020). Therefore, longevity of audit firm tenure, profit motive of the audit firm, lack of accountability, weak internal control and lack of dedication to the profession and responsibility impairs the quality of external audit works and audit reports.

There are so many researches involving at international level on factors affecting the effectiveness of an internal audit in private and public sectors. Like, George (2015) in Greece, Huong (2018) in Vietnam, Achina (2016) in Ghana, Aburabe (2017) in Libya, Omri et al. (2016), Mustika and Alqadi (2017) in Jordan and others who conduct research paper on the topic factors affecting internal audit effectiveness in different countries. Broadly, their results indicate that the effectiveness of internal audit is primarily determined by factors such as the independence of the internal audit function, the competence exhibited by internal audit personnel, management support, the quality of internal audit work, proficiency in internal audit practices, organizational independence, and opportunities for career advancement.

In Ethiopia, Mihret and Yismaw (2007), Sisay (2018), Wondwosen (2019), Arefayne (2019), Shewamene (2014), Beza (2017), Fetu (2016), Shiferaw (2017), and others conducted a research paper on this topic. Generally their finding shows that audit quality, management support, organizational setting, attributes of the audited, competence of an internal audit, independence of the internal audit, career advancement, management perception, existence of audit committees and availability of information technology are the major determinates factor for internal audit

effectiveness at the country level both in public and private sectors but in case of private audit firms of Ethiopia there was not sufficient research conducted on this topic.

Despite the critical role of external audits in enhancing financial transparency, investor confidence, and economic stability (Sisay, 2018), there is a lack of comprehensive research specifically focused on the determinants of audit quality in private audit firms of Ethiopia (Arefayne, 2019). The existing studies primarily examine audit quality factors in a global or broader context (Mwiti&Murimi, 2021), and few studies have specifically addressed the unique challenges faced by private audit firms in Ethiopia (Tufa et al., 2022). Understanding the factors that influence the quality of external audit services is crucial for policymakers, regulators, audit firms, and other stakeholders in the Ethiopian auditing profession (Wondwosen, 2019). The importance of studying the factors affecting the quality of external audit services in private audit firms in Ethiopia lies in ensuring the reliability and credibility of financial reporting. High-quality audits enhance investor confidence and facilitate efficient capital markets. Understanding these factors is crucial for improving audit practices, supporting the integrity of the auditing profession, and fostering trust in financial information within the Ethiopian business environment. Therefore, this study was conducted to partially fill the existing literature gap to investigate the auditors' professional ethics dimensions of independence, competence, objectivity, integrity and confidentiality of information on audit quality improvement with a particular focus on private audit firms of Ethiopia. This research aims to address the critical issues in Ethiopia's external audit services by examining how auditors' competence, independence, objectivity, integrity, and confidentiality of information influence the quality of audits.

1.3 Objective of the Study

1.3.1 General objective

The general objective of the study is to assess the factors affecting the quality of external audit service: evidence from private audit firms of Ethiopia

1.3.2 Specific objectives

To archive the general objective of the study, the study listed the following specific objectives.

- ✓ To examine the influence of auditors' competence on audit quality.

- ✓ To determine the influence of auditors' independence on audit quality.
- ✓ To assess the effect of auditors' objectivity on audit quality.
- ✓ To find out the effect of auditors' integrity on audit quality.
- ✓ To examine the effect of confidentiality of information on audit quality.

1.4 Hypothesis Testing

Alternative Hypothesis1: Auditors' competence has a significant and positive influence on audit quality in private audit firms of Ethiopia.

Alternative Hypothesis2: Auditors' independence has a significant and positive influence on audit quality in private audit firms of Ethiopia.

Alternative Hypothesis3: Auditors' objectivity has a significant and positive influence on audit quality in private audit firms of Ethiopia.

Alternative Hypothesis4: Auditors' integrity has a significant and positive influence on audit quality in private audit firms of Ethiopia.

Alternative Hypothesis5: Confidentiality of information has a significant and positive influence on audit quality in private audit firms of Ethiopia.

1.5 Significance of the Study

The results of this study would provide important information to the audit firms, Academics, and government bodies, auditor's managements/Shareholders as highlighted below.

Audit firms: The study would provide insights to private audit firms of Ethiopia that which determinant factors are worthy to achieve audit quality. So, the findings of this study would be a valuable input for private audit firms of Ethiopia to distinguish which factor has to be considered to achieve audit quality.

Academics: As discussed in the literature review, the findings of determinant factors show inconsistent conclusions. So, the findings of this study would add a significant value to the existing literatures. In addition, the study could be a reference for future researchers who want to study on determinants of audit quality.

Government body: The findings of the study would give important information to regulators of accounting like AABE to formulate policies and strategies on audit quality based on the empirical evidences obtained from this study.

Auditor's management/Shareholders: The findings of the study would give an important information's to managements or shareholders of auditor's which determinant factors of audit quality are considered while taking audit engagements with external auditors. So, this would increase the audit requirements from external auditors to acquire a credible audit reports for their decision making.

1.6 Scope of the Study

This research is delimited to the assessment of factors influencing the quality of auditing within Ethiopian private external audit firms. The geographical scope is specifically confined to the Ethiopian context, focusing on the private audit firms of Ethiopia. The study narrows its examination to five major dimensions of auditors' professional ethics namely independence, competence, objectivity, integrity, and confidentiality of information. These dimensions are considered crucial factors affecting the enhancement of audit quality. The research is conducted using a quantitative research approach. This methodological choice aims to provide a comprehensive and nuanced understanding of the multifaceted aspects influencing auditing quality. Additionally, the study employs an ordinal logistic regression model for data analysis, further enhancing the depth of insights derived from the research. In terms of the temporal scope, the study covers the period leading up to the survey conducted in 2023, offering insights into the dynamics of the audit landscape within private external audit firms up to that specific timeframe.

1.7 Limitation of the Study

While this research provides valuable insights into the factors influencing the quality of auditing in Ethiopian private external audit firms, certain limitations should be acknowledged. Firstly, the study's scope is restricted to five specific dimensions of auditors' professional ethics independence, competence, objectivity, integrity, and confidentiality of information. This focused approach may omit other potentially relevant factors that could impact audit quality. Additionally, the research relies on a mixed research methodology and ordinal logistic regression for data analysis, which might not capture the full complexity of the variables involved. Methodological constraints may limit the Generalizability of the findings beyond the specific context and conditions of the study. The temporal scope is confined to data collected up to 2023, and therefore, the study's conclusions may not account for subsequent changes in the audit

landscape. Furthermore, external factors such as regulatory changes or shifts in the economic environment that occurred post-2023 are not considered in the analysis. Lastly, the study primarily focuses on private external audit firms, and the findings may not be directly applicable to public or governmental audit contexts. These limitations should be taken into account when interpreting and applying the results of this research.

1.8 Operational Definition

Auditors' Competence: Refers to the proficiency, knowledge, and skills possessed by auditors in performing audit tasks, including their understanding of relevant accounting standards, auditing procedures, and industry-specific regulations (George, 2015).

Auditors' Independence: Denotes the autonomy and impartiality of auditors in conducting audits, free from any influence or conflict of interest that may compromise their ability to provide objective opinions on financial statements (Kartika et al., 2019).

Auditors' Objectivity: Signifies the impartiality and fairness exhibited by auditors in assessing and reporting financial information, ensuring that their judgments and opinions are not influenced by personal bias or external pressures (Tepalagul & Lin, 2015).

Auditors' Integrity: Represents the honesty, ethical conduct, and adherence to professional standards demonstrated by auditors in performing their duties, including their commitment to truthfulness, accuracy, and ethical behavior (Bassey et al., 2020).

Confidentiality of Information: Refers to the safeguarding of sensitive and proprietary information obtained during the audit process, ensuring that such information is protected from unauthorized access or disclosure to maintain client confidentiality and trust (Meidawati & Assidiqi, 2019).

1.9 Organization of the Study

This research was encompassed in to five chapters; the first chapter presents the introduction part which comprises background of the study, statement of the problem, objective of the study, the research hypothesis, significance and scope of the study. The second chapter presents theoretical and empirical literatures reviews and followed by justification of the research and conceptual

frame work. The third chapter employed to present the research methodology which covers the research approach, design, population and sample size, sampling techniques, data collection methods and tools, data analysis techniques. The fourth chapter presents data presentation, analysis and the discussion. Finally, chapter five presents the conclusion and recommendation of the researcher forwarded.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Theoretical Literature Review

2.1.1 Concept of auditing

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria (Arena & Azzone, 2009). Auditing should be done by a competent, independent person. They also classified auditing based on the primary audit beneficiaries into two: Internal audit and external audit.

Auditing is the content of Dianetics and Scientology is an activity where a person trained in auditing listens and gives auditing, commands to a subject, which Scientology refers to as "Peculiar" critics of auditing have suggested it has similarity with cult style programming and some behavior modification techniques which result psychological manipulation of the subject. Auditing involves the use of processes which are sets of questions asked or directions given by an auditor. When the specific objective of any one process is achieved, the process is ended and other can then be used by doing this, the subjects are said to be able to free themselves from unwanted barriers that inhibit their natural ability. Auditing is 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 communicating the result to interested user (Alarens, 1996).

According to Hawa (2016) auditing is originally a financial management concerned with assessing practice for the internal financial status of the organization and the evaluations of the financial performance of the organization. After the revolution and beginning the 20th century

the reporting practice of auditors, which involved submitting reports of their duties and findings, was standardized as the Independent Auditor's Report (Manal, 1999). Since then, the auditing practices have evolved over the years and develop into the broader aspects. It also provides feedback on organization financial information and reporting. It also becomes a tool for an analysis of any fraudulent activity, potential and actual within the organization. In a generic sense auditing involves a critical examination and verification of accounts and other performance processes for the purpose of ascertaining the true and correct positions and results of operations of organizations private or public.

According to Spicer and Pegler (2009): "Auditing is such an examination of books of accounts and vouchers of business, as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period. According to the definition given by the International Federation of Accountants (IFAC), "An audit is the independent examination of financial information of any entity, whether profit oriented or not and irrespective of its size or legal form when such an examination is conducted to express an opinion thereon."

According to Comber (2017) Audit is an independent examination of the financial books and records of some person or persons responsible or accountable to the third party with a view of verifying the accountancy of statement prepared by the accounting party. According to Montgomery; "Auditing is a systematic examination of the books and records of a business or the organization to ascertain or verify and to report upon the facts regarding the financial operation and the result thereof."

2.1.2 Historical Development of Auditing

The word Audit is derived from Latin word "Audire" which means 'to hear.' Auditing is the verification of financial position as disclosed by the financial statements. It is an examination of accounts to ascertain whether the financial statements give a true and fair view of financial position and profit or loss of the business. It is the intelligent and critical test of accuracy, adequacy and dependability of accounting data and accounting statements. In early days an auditor used to listen to the accounts read over by an accountant in order to check them. Auditing

is as old as accounting; it was in use in all ancient countries such as Mesopotamia, Greece, Egypt, Rome, U.K. and India. The original objective of auditing was to detect and prevent errors and frauds. Auditing evolved and grew rapidly after the industrial revolution in the 18th century with the growth of the joint stock companies the ownership and management became separate. The shareholders who were the owners needed a report from an independent expert on the accounts of the company managed by the board of directors who were the employees (IIA, 2017).

The objective of an audit shifted and audit was expected to ascertain whether the accounts were true and fair rather than detection of errors and frauds. With the increase in the size of the companies and the volume of transactions, the main objective of an audit shifted to ascertain whether the accounts were true and fair rather than true and correct. Hence, the emphasis was not on arithmetical accuracy but on a fair representation of the financial efforts. The later developments in auditing pertain to the use of computers in accounting and auditing. In conclusion it can be said that auditing has come a long way from hearing of accounts to taking the help of computers to examine computerized accounts (Botha & Boon, 2003).

2.1.3. Development of Auditing in Ethiopia

The process of auditing professionalization in Ethiopia appears to exhibit distinct Patterns during the three epochs when the state followed capitalist-oriented (pre 1974), Communist (1974 through to 1991), and then capitalist-oriented (1991 onwards) ideologies. It is apparent from the foregoing quote that performance auditing in a rudimentary sense was started for the government system of Ethiopia in the early 20th century explains that the contribution of foreign advisors to the kings of Ethiopia during the period from the 1890s through to the 1970s led to the issuance of government regulations and proclamations.

In discussing the contribution of foreign advisors to the development of auditing in Ethiopia, Kinfu (1990) considers as initial contributions the role of consultants during the Construction of the Ethio-Djibouti railway in the 1890s and of the legal, military, and foreign affairs advisers in the 1930s. The author then attributes developments of accounting and auditing from 1934 to the early 1970s to the Anglo-American legal and financial advisors to Emperor Haile Silassie I (1928-1974). The first substantial development during this period was the issuance of Ministry of

Finance directives in 1942 (Argaw 2000 & Merissa 1981). This was followed by the formation of the Audit Commission by Proclamation No. 69/1944 to undertake external audit of accounts of the Ministry of Finance (Government of Ethiopia 1944), which was subsequently mandated to conduct the external audit of other budgetary institutions as well. This marks the start of today's Office of the Federal Auditor General of Ethiopia (OFAG), which, amongst other duties, monitors and regulates the accounting and auditing profession in Ethiopia.

In about the same time frame, the Ethiopian Highway Authority and Ethiopian Airlines were established. In addition, the Ethiopian Telecommunications Corporation and the Ethiopian Electric Light and Power Authority became autonomous state-owned enterprises. These phenomena led to involvement of foreign companies as partners, financiers or consultants to the Ethiopian state-owned enterprises. Consequently, internal audit was introduced in these enterprises with a view to strengthening internal controls. As a consequence of the growth of demand for trained manpower in accounting and auditing up to the early 1940s, the Addis Ababa College of Commerce was established in 1943. The Colleges of Business were then established at Addis Ababa University in 1963. These institutions have played essential role in the development of the accounting and auditing profession in Ethiopia by producing trained manpower (Argaw 2000a; Kinfu 1990).

Other significant developments in the history of accounting and auditing in Ethiopia took place in the 1960s. Firstly, the Commercial Code of Ethiopia was proclaimed in 1960 (Government of Ethiopia 1960). This Code contains accounting and external auditing provisions which still serve as the legal basis for financial reporting and external audit of companies (Argaw 2000a; Kinfu 1970; Negash & Merissa 1981; World Bank, 2007). The code contains some requirements for financial accounting, reporting, and external auditing of companies that operate in Ethiopia. The second development was the formation of the Office of the Auditor General (OAG) in 1961 by Proclamation 199/1961 (Government of Ethiopia 1961). This proclamation accorded the OAG greater authority that was provided in the 1944 proclamation that established the Audit Commission (Argaw 2000; Kinfu, 1990). The proclamation has subsequently been revised three times, in 1979, 1987 and 1997. The 1997 version of the proclamation is the legal basis for external audit for government organizations in Ethiopia to date of writing (Ray, 1995).

2.2. Audit Quality

As stated by DeAngelo (1981) audit quality is defined as the probability of the auditor's detection mechanisms and report material breaches (Misstatements) in the accounting system. Audit quality is an attribute of the audit service that alleviates the conflict of shareholders and the management interests. As per the seminar work made by DeAngelo (1981), the quality of audit is a dependent of two dependent factors; the first is the auditor's ability to examine accounts and identify errors (anomalies), and their technical competence to detect misstatements. The second is their objectivity and independence to report misstatements. Auditing quality is the combined probabilities of auditor's detection of misstatements and reports such misstatements objectively (Watts and Zimmerman, 1986). Palmrose (1988) describes audit quality as a level of assurances. She states audit quality is the degree of assurance that financial statements contain no material omissions or misstatements.

Measuring external audit quality is a complicated and challenging task (Jensen and Payne, 2005; Niemi, 2004; Wooten, 2003). However, according to the study made by Francis (2004), Bailey and Grambling (2005), PCAOB (2008): audit quality is measured in various measurements which are available on various literature reviews and in practices. Audit quality can be measure by quality control review, financial reporting compliance with Accounting standards, bankruptcy, SEC performance and desk review are used as a measurement of audit quality (Chadegani, 2011).

Lennox (1999) and Francis (2011) measured audit quality by using going concern audit report and client business failure. Going concern modified audit opinions communicate the auditor's evaluation of whether the going concern ability of the company is in substantial doubt. Therefore, studies that sought incorrect going concern opinions definitively as an appropriate indicator for low audit quality. However numerous different types of material misstatements may occur, which are not connected to a going concern opinion, such as over or undervaluation of assets and debts in a good financial situation. Another audit quality measurement is discretionary accruals which is the most common proxy to gauge the audit quality. According to Choi et al. (2010), discretionary accruals show the extent to which managers manipulate earnings and therefore disclose the level of earnings management by managers. Therefore, the quality of audit is low when there is a high level of discretionary accruals and earnings management.

From all the different views on audit quality, the definition by De Angelo (1981) is most frequently cited (Maria, 2016). Audit quality is the joint probability that an auditor will both discover and report a breach in the client's accounting system (De Angelo, 1981). The probability that the auditor will report a discovered breach is effectively the auditing profession's definition of independence (Watts et al., 1983).

Another approach to define audit quality is a more normative way of thinking. Mautz and Sharaf (1961) stated that Auditing Theory is a guide for carrying out a normative audit. To conduct a quality audit, the auditor must comply with generally accepted standards and regulations. Audit quality is measured using auditing standards, and generally accepted regulations.

2.3. Theory of Auditing

2.3.1 Agency Theory

Agency theory (Watts and Zimmerman 1978, 1986a, 1986b) suggests that the auditor is appointed in the interests of both the third parties as well as the management. A company is viewed as a web of contracts. Several groups (suppliers, bankers, customers, employees and so on) make some kind of contribution to the company for a given price. The task of the management is to coordinate these groups and contracts and try to optimize them; low price for purchased supplies, high price for sold goods, low interest rates for loans, high share prices and low wages for employees. In these relationships, management is the agent, which tries to gain contributions from principals.

2.3.2 Stakeholder Theory

This study is anchored on the stakeholder theory. The stakeholder theory evolved from the agency theory. The agency theory sees any modern organization as an aggregation of the interactions between the principals and their agents. The principals are the shareholders who are the owners of the entity while the agents are the managers who are usually the experts with control over the day-to-day affairs of the entity. This relationship, as is observed by analysts, creates information asymmetry with the managers having information advantage. This creates the need for proper monitoring which has brought to the fore role of the auditor, who is required to provide an independent examination of the affairs of the entity so as to be able to express an

opinion on the financial statements of the entity. Such expressed opinion by the auditor is basis for “faith” and “confidence” in the financial statements. The stakeholder theory is a natural extension of the agency theory. The theory holds that every entity involves the interactions of more than the principals and their agents. Such relationships will also involve the interaction of everyone with a stake in the affairs of the entity: the host community, creditors, bankers, government and others. This means that there is greater information demand on the entity; this therefore places greater demands on the auditor to ensure the representativeness of the financial statements (Freeman, 1984; Jones and Wicks, 1999; Donaldson and Preston, 1995; Jones, 1995).

2.3.3 Accounting Theory

Accounting theory has developed over the years by observation, assessments, scrutiny and scanning, and explanations on daily accounting practices (Waweru, Ntui, & Mangena, 2011).

The daily accounting practices have been performed through successful usage of generally accepted and established theories and principles. Because of the changes within any country’s socioeconomic structure, accounting patterns of practices could also change. In the event of any change within the accounting pattern, necessary modulations and modifications are needed on the pertinent theories. An accountant cannot contemplate of practicing without adequately getting equipped with the theoretical knowledge. Notwithstanding, that the theories of accounting could also help accountant professionals with solving real world practicing challenges that could arise in their professionalism (Coetsee, 2010). As such, knowledge of accounting, the integrity of the accountant and independence depicted by the accountant are important in influencing the quality of financial accounting reports.

2.3.4 Institutional Theory

The institutional theory describes how administrative practices and structures are moulded through modification caused by normative pressures of both internal and external sources like guidelines and laws (Mihret & Woldeyohanes, 2011). Many previous studies in financial reporting use institutional theories to explain their findings regarding the determinants of financial reporting efficiency in companies. Mihret and Woldeyohanes (2011) argue that institutional theory is an essential model for examining the effectiveness of financial reporting in corporate entities and the factors influencing it. It is an essential theory that can explain relationship

between competence, objectivity and independence of accountant and the resultant quality of financial reports.

According to institutional theory, an institution is designed to meet social expectation because its operation is always visible to the public. For this reason, complex organizational internal operations that are difficult to identify may focus on the issue of external legitimacy through demonstrating competence. Most organizations operate with internal systems that are not commonly visible to those external to it while the structures established for outsiders do not add to output significantly. Smith (2015) posits that analysis by external auditors can be avoided if the organizations adopt the right structures. Loose technological combination enables the institutions to show achievement in external measures whereas at allowing for flexibility at the time of operational procedures. Financial organizations should be ready to account for high cost of adopting various innovations in the accounting department to ensure that the staffs are well trained to improve financial reports' quality. This theory was aligned to competence, independence and objectivity of accountants.

2.4. Determinants of External Audit Quality

2.4.1 Auditors Competence and Quality of auditing

A good management of employees is fundamental for their effective and efficient operation. Financial reporting activities require knowledgeable staff with the appropriate education, experience and professional qualification to perform a wide range of accounting tasks audits required (Stewart &Subramaniam, 2010). Moreover, competency of auditors in the firm is a critical attribute of achieving quality of auditing process. Proficiency of auditors requires them to possess skills, knowledge and other important competencies so as to perform their responsibility effectively (IIA, 2011). In addition, competence framework for auditors emphasizes on the skills that a person requires being an efficient accountant.

Past studies on communication skills prove that effective communication abilities such as interpersonal, listening, oral and written skills are an important element of an auditors' development potential (Cohen &Sayan, 2010).Leung and Cooper (2014) state that, the development of these skills is not aimed to improve the auditors' potential, but to enhance the quality of auditing reports. The competence of auditors is measured in terms of experience,

academic level, compliance with accounting standards and their efforts to continue professional development (Nagy & Cenker, 2012).

Setiyawati (2013) researched on the effect of internal auditors' competences to develop quality auditing reports in Indonesia. The research on Bogor District Local Government used survey method to survey 31 local government units. Questionnaires were used as data collection tools. The study's findings showed significant influences of competent internal auditors' in regard to auditing reports' quality.

2.4.2 Auditors Independence and Quality of Auditing

The concept of independence is subject to uncertainty and ambiguity as it has no interpretation or a single meaning across the people (Lin et al., 2011). However, for this study's purpose, independence is described as the concept of being free from management influence when auditors are performing their auditing activities and giving out their reports (Belay, 2017). That is Independence is critical to the auditor's report reliability since, if they are not independent in appearance and facts, their reporting will not be credible and creditors as well as investors will not trust them. The assurance services they provide gain their credibility and value from the basic assumptions of independence in appearance and mind. Moreover, accounting involves entire management process as they increase the reliability of information, issue reasonable opinions, maintains objectivity and therefore requires being independent (IIA, 2010).

Independence exists when auditors are able to act with integrity, objectivity, impartiality and free from conflict of interest. Independence in appearance means how accountants should be viewed by the public and others. Conflict of interest is when a reasonable individual with adequate knowledge of all essential facts, claim that an accountant or any member of the group is incapable of making impartial judgment and exercising objectivity in regard to the conduct of the auditing reporting (Zain et al, 2016). Afterwards, auditors need to be independent from those they are supposed to report about for the purpose of performing their activities without interference. Independence in conjunction with objectivity improves accuracy and reliability of auditors' work and gives employers confidence that they can trust their reports and results (Cohen & Sayag, 2010). Auditors' status and position in an organization is essential in

maintaining their independence. It helps them work objectively and perform their work independently.

A study by Hutchinson and Zain (2009) sought to ascertain the effect of auditor's independence and quality of auditing reports, firm performance and growth opportunities. This study focused on 60 Malaysian companies from the financial and services sector. The study established that auditor's independence is associated with quality auditing reporting, firm performance and growth opportunities. Nevertheless, the findings indicated that financial reporting efficiency was negatively related with auditor's independence.

The study by Al-Matari et al. (2014) wanted to determine the influence of auditor independence on audit reporting quality. Auditing report quality in this regard was measured using qualitative and quantitative measures of effectiveness and efficiency. The study revealed that audit reporting quality is perceived to be the core of corporate accounting since as a section it maintains track with businesses related with the sector. Efficiency in audit reporting could assist with the development of the company's work since the reports presents the outlook of the company performance. Independence of auditing team was found to significantly and positively influence quality of financial reports. This implied that as auditing team becomes more independent from the influences of management, the efficiency of the output of accounting department improve.

2.4.3 Auditor Objectivity and Quality of Auditing

Gras Gil, et al(2012) conducted a study on the objectivity of auditors and the extend of audit reporting in the Spanish banking industry. The aim of the study was to assess the connection between a firm's auditors' objectivity and the quality of its auditing reporting. The study relied on the data collected from the Spanish banks' internal audit directors. The findings established that banks with more objective auditors provided high quality of audit reporting. An extensive involvement of internal auditors in reviewing internal financial reports boosted the quality financial reporting.

Stewart and Subramanian (2010) observed that the motivation for improved objectivity and independence in internal auditing could be associated with the expanding and evolving roles of internal accounting as important mechanism for corporate governance. In this respect, internal auditors hold a unique position of providing either services of quality assurance or management

consultancy services. The objectivity of auditors is thus critical in enhancing the quality of auditing reports they prepare.

Yosep (2016) explored the effect of auditors' objectivity on auditing report's quality in Indian publicly listed commercial banks. The author observed that IIA India had underlined the importance of objectivity in the practice of accounting and auditing. The standards indicate that accountants and internal auditors must be objective in carrying out their work. Objectivity of the accountants and auditors refers to the mental attitude individually. The study by Yosep (2016) indicated that banks which had objective auditors rarely provided qualified financial statements. The conclusion from the study was that objectivity of the auditors positively influenced quality of auditing reports.

2.4.4 Auditors Integrity and Quality of Auditing

Eginiwin and Dike (2014) explored the impact of auditing ethics in audit reporting quality among some sampled Nigerian oil producing and exploration companies. The research found some important auditing ethics variables that were included in the research which entailed independence, integrity, objectivity, competence and accountability. One hundred and thirty-three questionnaires were administered to the sampled twenty oil producing and exploration companies, while the analyzed data was tabulated from 118 questionnaires filled from the field work. The multiple regression technique was used to analyze the gathered data using Eview statistical package. The findings indicated that there was positive relationship relating ethics in auditing and audit reporting quality in regard to return on investment, dividend per share, and earnings per share.

Ogbonna and Ebimobowei (2012) investigated how Ethical Auditing Standards impact on Nigerian Banks' Financial Reports. To attain the study's objectives, both secondary and primary material formed as sources of the research data. The secondary sources included journals, textbooks, and unpublished thesis. The primary data was gathered using a well-structured questionnaire with four sections composed of 67 questions given to a sample size of eight banks and systematically gathered among twenty-four Nigerian banks. The information gathered on the questionnaires was then analyzed using models of econometric like Augmented Dickey-Fuller,

diagnostic tests, Granger Causality, and ordinary least square. The findings showed that standards of ethical auditing were extensively linked with the auditing reports of Nigerian banks.

2.4.5 Confidentiality of Information and Quality of audit

The auditor must keep that the information he possesses through his work confidential, and should not disclose such information to any party except in certain cases permitted by law and the consent of the customer, or that are required by law in the legal disputes, reports to the competent agencies concerned in case of legal violations, or as a professional requirement in response to the requirements ethical or standards requirements for the protection of the interests of the auditor, or in the case of quality control and peer review (Thunaibat, 2010).

A study by Hutchinson and Zain (2009) sought to ascertain the effect of auditor's confidentiality of information and quality of auditing reports, firm performance and growth opportunities. This study focused on 60 Malaysian companies from the financial and services sector. The study established that auditor's confidentiality of information is associated with quality of auditing report, firm performance and growth opportunities. Accordingly, the findings indicated that auditing report efficiency was positively related with auditor's confidentiality of information.

2.5. Empirical Review

Schauer (2008) provided further evidence on impact of audit firm-specific attributes on external audit quality for Indian private family firms that covered the period from 1999-2006. The study contributed to the literature which concentrates mainly on testing of the association between client industry audit specialization, measured by market share, and audit quality using the Jones (1991) abnormal accruals model, since prior research explained that it is the best measure of the discretionary portion of total accruals. The overall results suggested that client audit industry specialists have more industry expertise creating by sharing best practices and learning from serving the same industry clients. Therefore, this enables external auditors to be more effective at detecting misstatements in staff working papers during the audit review process in order to constrain the incidence of earnings management which is associated with higher audit quality.

Thus, in this way audit firms meet their client needs, because clients always want the best audit quality.

Qtish (2012) write the article and it examines the relationship between information system and the effectiveness of audit program in Jordan. A quantitative approach was incorporated in this study. Based on 43 usable questionnaires, the result of the study's how the information system used contributes significantly toward an effective audit system. The result of the analysis indicated that information system contribute significantly toward an effective tax audit. Ratto (2012) argues that top management support provides auditors which increases their perceptions and hence their behavioral responses toward audits. The result highlighted the importance of testing separately the responses of auditors facing different opportunities and incentives to evade tax in order to avoid conflating their different effects, and to reveal both positive and negative indirect revenue effects from random auditing.

The study of Adediran (2013) examined the impact of tax audit independence and effectiveness of tax audit in Nigeria. The findings are that Tax audit and independence can increase the revenue base of the government and can also stamp out the incidents of tax evasion in the country. It was recommended that Tax audit independence should be carried out more often and as thorough as possible to accomplish its task of increasing the revenue base and auditing effectiveness.

Gwilliam (2014) assessed factors influencing internal audit effectiveness (IAE) in Saudi Arabia. Data were obtained from 203 managers and 239 internal auditors from 79 Saudi Arabian public sector organizations. Multiple regression analysis examines the association between IAE and five principal factors. Management support is linked to hiring trained and experienced staff, providing sufficient resources, enhancing the relationship with external auditors, and having an independent internal audit department. Thus, links between management support and internal Audit effectiveness are likely generalizable beyond the Saudi public sector context.

Al_Frijat (2013) conducted a study to show the tasks to be performed by AIS in the income tax department to improve the effectiveness of tax audit and collection. The finding of the study shows that the study found that the AIS used in the income tax department positively influenced the effectiveness of tax audit and collection due to the existence of qualified human resources, an

advanced computer system, and competent control system. George Drogalas (2015) conducted a study to examine the relationship between tax audit effectiveness and the use of specialized information system tools Oromia Revenue authority. The finding of the study shows that there is a positive and significant relationship between Information Systems and “Tax audit effectiveness.

Chemeda (2016) studied on the topic “The Assessment of Quality External Audit Services: Evidence from Grades ‘A’ Private Audit Firms of Ethiopia”. The study assessed explanatory variable as quality of services and sufficiency of resources, exercises of professional skepticism, professional independence and objectivity and external auditors’ communications. The findings of the study showed that External auditors are not independent and objective, they ignored the General Accounting and Auditing Standards (GAAS) requirements, the audit partner does not or partially communicate the nature of non-audit services, the audit firm does not or partially rotates the engagement partner in line with commercial code and the fees charged by the auditors does not fairly reflect the nature of the entity. Data in this study were assessed simply by the use of spreadsheets such as Excel and the data were not regressed to reach at a robust result.

Smith (2020) conducted an extensive study on the impact of auditor competence on audit quality within the context of small and medium-sized enterprises (SMEs). The research found that higher levels of auditor education and continuous professional development were strongly correlated with improved audit outcomes. Specifically, auditors with advanced certifications and participation in regular training programs were more likely to detect and report irregularities, thus enhancing the reliability of financial statements. Smith's findings suggest that investments in auditor education and training are critical for maintaining high audit standards, particularly in the dynamic business environments of SMEs.

Johnson and Wang (2021) explored the relationship between auditor independence and audit quality in large publicly traded companies. Their study revealed that auditors who maintained a greater degree of independence from their clients delivered audits of significantly higher quality. This was measured by the accuracy of financial reporting and the likelihood of uncovering financial misstatements. The research highlighted the detrimental effects of prolonged auditor-client relationships, which tend to compromise auditor objectivity. Johnson and Wang

recommended regulatory reforms to enforce mandatory auditor rotation and stricter independence guidelines to safeguard audit integrity.

Ahmed and Ali (2022) focused on the role of auditor integrity in ensuring high-quality audits in government agencies. Their research found that auditors who adhered strictly to ethical guidelines and demonstrated high levels of personal integrity were more effective in conducting thorough and unbiased audits. This integrity was closely associated with reduced incidences of corruption and financial mismanagement in audited entities. Ahmed and Ali's study underscores the importance of ethical training and stringent adherence to professional codes of conduct to improve audit outcomes in the public sector.

Kim (2023) examined the effect of confidentiality of information on audit quality within multinational corporations. The study revealed that maintaining confidentiality is crucial for gaining client trust and ensuring access to complete and accurate financial information. Kim found that breaches in confidentiality led to significant disruptions in the audit process, including restricted information flow and increased chances of financial misreporting. The research recommended that audit firms implement robust data protection measures and establish clear confidentiality protocols to uphold the integrity of the audit process and maintain client trust.

2.6. Identified Literature Gap

Moreover, existing literature predominantly overlooks the interconnectedness of these factors and their collective impact on audit quality in Ethiopian private audit firms. While individual studies have examined auditor competence, independence, objectivity, integrity, and confidentiality in isolation, there is limited research exploring how these elements interact within the Ethiopian audit environment. Understanding the synergistic effects of these factors is crucial for developing comprehensive strategies to enhance audit quality effectively. Additionally, the existing research often lacks a holistic perspective on the cultural, regulatory, and economic nuances that shape auditing practices in Ethiopia. These contextual factors play a significant role in influencing auditor behavior, client relationships, and overall audit quality but have been relatively understudied in the literature. Therefore, there is a pressing need for research that takes into account the broader context in which private audit firms operate in Ethiopia to provide more nuanced insights into the determinants of audit quality.

Furthermore, while some studies have examined audit quality in specific sectors or organizational settings, such as banking or government agencies, there is a scarcity of research focusing specifically on private audit firms in Ethiopia. Private audit firms face unique challenges and constraints that may differ from those encountered by auditors in other sectors or in public accounting firms. These challenges could include limited resources, client confidentiality concerns, and varying levels of regulatory oversight. Therefore, a deeper understanding of the factors influencing audit quality within this specific context is essential for informing policy decisions, regulatory reforms, and professional development initiatives tailored to the needs of Ethiopian private audit firms. Closing this gap in the literature will not only contribute to academic knowledge but also offer practical guidance for improving audit practices and promoting financial transparency and accountability in Ethiopia's business ecosystem.

2.7. Conceptual Framework

According to Mugenda and Mugenda (2008), conceptual framework is a concise brief presentation of the linkage between the hypothesized relationships with the real ideas of investigations or thoughts. In order to achieve the objectives of the study, a reliable auditors professional ethics is essential (Awoku, 2012). The major external auditing quality are auditor’s independence, auditor’s competence, auditor’s objectivity, auditor’s integrity and confidentiality of information (Thunaibat, 2010). In this study, the five major factors discussed above are considered.

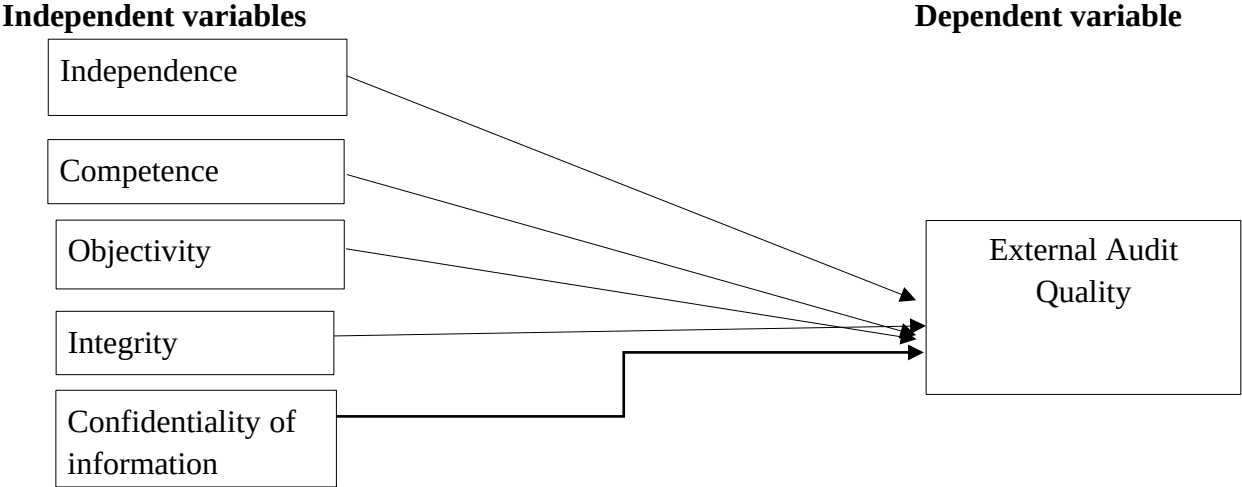


Figure 1 Conceptual framework
 Source: Own design from Fallatah, 2017; Bersisa, 2020

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter intended with methodology of the study; it comprised description of the study, research design, types and sources of data, population of the study, sampling design, data collection methods and method of data analysis.

3.1. Research Approach

A quantitative research describes the phenomenon of gathering numerical data that can be analyzed using mathematical methods; because the developed propositions must be inspected with the relationship between a diversity of variables; using numerical techniques is suitable to test the strength of relationships (Creswell, 2003). The researcher was employed a quantitative research method which allows gathering numerical data, measuring variables, predicting and using statistical procedures to analyze and develop inferences (Cooper and Schilder, 2003). It was expected to contribute in collecting appropriate data and test the theoretical frameworks so as to advance overall thoughtful of the perceived critical issues that find out quality of audit under the study.

3.2. Research Design

According to Kothari (2003), research design is a comprehensive plan for data collection in an empirical research project. It creates the blueprint for gathering, measurement and analysis of data. Thus, design indicates the outlines what the investigator should achieve from analyzing the hypothesis employed inferences in the final analysis of the data. To examine influence of the independent variables on the dependent variable under the study, the researcher was used explanatory research method. The researcher was used cross sectional field survey research to understand the effect of relationships between the explained (external audit quality) and explanatory (auditor's independence, auditor's competence, auditor's objectivity, auditor's integrity and confidentiality of information) under the study.

3.3. Sources and Data Collection Tools

So as to attain the objective of the study, the researcher was used both primary and secondary data which provides an appropriate means of assessing sample information and a suitable data to draw conclusion about generalizing the result from a sample of responses to the entire population (Creswell, 1994). Data is collected through self-administered Closed-ended questionnaires focused on impacts of Audit competence and audit independence on the quality of external audit. Closed-ended questionnaires are questionnaires in which respondents are asked to choose an answer from a list of questionnaire prepared by the researcher. A pilot test is conducted to some certified auditors to pretest and refine the final questionnaires to be distributed to target respondents. Moreover, secondary sources was used for literature purpose from different written documents such as articles, books, annual reports, websites (internet), and other published and unpublished sources.

Questionnaires were developed based the previous literature reviews and distributed to the selected samples. For independent Variables internal control and accountability, closed ended questionnaire were developed based on a Likert scale ranging from strongly agree to strongly disagrees where 1 represents strongly agree and 5 strongly disagree.

3.4. Sampling Size

The study uses a convenience sampling design because the populations of this study were homogeneous in Geography and other aspects and due to ease of access. When population elements are selected for inclusion in the sample based on the ease of access, it can be called convenience sampling (Kothari, 2019). The population of the study is private audit firms of Ethiopia. According to AABE (2021), there are 137 private audit firms in Ethiopia. Since, the number of total population is small; the study was used census survey. Thus, the researcher conducted all 137 private audit firms using census survey as a sample size.

3.5 Data Analysis

After the data was collected the raw data were converted into suitable form for analysis and interpretation. This was achieved through check the completeness, internal consistency and appropriateness of the answers to each of the questions. Statistical Package for Social

Science(SPSS) software for version 20 was employed to run the data through the statistical tools used for this study, namely descriptive analysis, correlation and multiple regression analyses. According to the survey instruments selected which was Likert scale questionnaire model, the researcher used ordinal (ranked) type of categorical data. In this aspect, the data was collected using questionnaire converted to represent the variables in the hypotheses. This was through take mean values of the item responses for each construct.

The descriptive results are presented by tables, frequency distributions and percentages to give a condensed picture of the data. Whereas to determine the relationship among the variables and to test the research hypothesis correlation and regression analysis method was used by meeting the ordinary least square (OLS) assumptions of the linear regression. Based on the objective of the study multiple regressions performed to estimate the magnitude of the effect of the independent variables on the dependent variable. The model is specified as:

$$EAQ = \alpha + \beta_1 IND + \beta_2 COM + \beta_3 OBJ + \beta_4 INT + \beta_5 CONF + \varepsilon$$

Where: CS: External Audit Quality

IND: Independence

COM: Competence

OBJ: Objectivity

INT: Integrity

CONF: Confidentiality

3.6 Measurement of Variables

The independent variables of the study are auditors' professional ethics as measured by five dimensions. These variables have five scopes which are auditor's independence, auditor's competence, auditor's objectivity, auditor's integrity and confidentiality of information. Thus, to measure the complete representation of independent variables and dependent variable of external quality of audit, the researcher employed by adopting multiple questionnaires from different authors using the five point Likert scales rate ranging from 5= strongly agrees, 4= Agree, 3= Neutral, 2= Disagree, 1 = strongly disagree.

3.6.1 Measurement of Independent Variables

Independence: Independence means having a position to take an unbiased viewpoint in the performance of professional assignments. Auditors must not only maintain an independent

attitude in fulfilling their responsibilities, but the users of financial reports must have confidence in that independence. To measure the level of auditors' independence, 6 items were prepared by adopting Francis (2011) using the five point Likert scales rate ranging from 5= strongly agrees, 4=Agree, 3= Neutral, 2= Disagree, 1 = strongly disagree.

Objectivity: Objectivity of the auditors refers to the mental attitude individually (Yosep, 2016). To measure the level of auditor's objectivity, 5 items were prepared by adopting Copeland (2015) using the five point Likert scales rate ranging from 5= strongly agrees, 4=Agree, 3= Neutral, 2= Disagree, 1 = strongly disagree.

Integrity: is the quality being honest and having strong moral principles. It implies not merely honest but fair dealing and truthfulness. This principle of integrity imposes an obligation on all auditors to be straight forward and honest in professional and business relationships. To measure the level of integrity 5 items were prepared by adopting Arezoo (2011) using the five point Likert scales rate ranging from 5= strongly agrees, 4=Agree, 3= Neutral, 2= Disagree, 1 = strongly disagree.

Professional competence: A professional auditor competence, in agreeing to provide professional services implies that he is competent to perform the service. Auditor should refrain from agreeing to perform professional services which they are not competent to carry out unless competent advice and assistance are obtained. To measure the level of auditor competence 6 items were prepared by Adeyemi and Fagbemi (2010) using the five point Likert scales rate ranging from 5= strongly agrees, 4=Agree, 3= Neutral, 2= Disagree, 1 = strongly disagree.

Confidentiality of information: Some professional auditors should respect the confidentiality of information acquired during the course of performing professional services. They should not use or disclose any such information without proper and specific authority. To measure the level of confidentiality of information, 4 items were prepared by adopting Dang (2004) using the five point Likert scales rate ranging from 5= strongly agrees, 4=Agree, 3= Neutral, 2= Disagree, 1 = strongly disagree.

3.6.2 Measurement of Dependent Variable

The dependent variable of the study is improvement of external audit quality. It is the market assessed joint probability that a given auditor was discovered a breach in client's accounting systems, and report the breach (Shafie, 2009). To measure the dependent variable of this study, five variables were prepared by adopting Masood, and Afzal (2016) using the five point Likert scales rate ranging from 5= Strongly agree, 4=Agree, 3= Neutral, 2= Disagree, 1 = Strongly disagree. Thus, the respondents were requested to select their own choice of the five point Likert scale alternatives in order to specify their level of agreement or disagreement on each statement.

3.7. Validity and Reliability

Validity refers to the extent of accuracy of the results of the study in which the results really measure what they are supposed to measure. Validity of the results can either be internal or external. Internal validity refers to the analysis of the accuracy of the results obtained and external validity refers to the analysis of the findings with regards to whether they can be generalized (Ghauri&Grønhaug, 2005).

In this study, validity was taken into consideration. For example, because the questionnaire was constructed by the researcher, it was designed on the basis of the researcher's needs in relation to the study topic and so brings advantages in the sense that it measures exactly what the researcher intends to measure. Literature review in the study area was conducted carefully before taking on the research. This enables theories and the questions in the questionnaire to be identified.

Reliability refers to the absence of random error, enabling subsequent researchers to arrive at the same insights if they conduct the study along the same steps again (Yin, 2014). To increase the reliability of the survey, five-scale system (Likert scale) questionnaire were used to closed-ended questions. Cronbach's alpha test was applied to check reliability; of the questionnaire using SPSS. Cronbach's alpha is the most common measure of internal consistency in order to determine if the scale is reliable. It is most commonly used when researcher use multiple Likert scales in a questionnaire. This study was devised a 5 Likert scales from "strongly disagree" to "strongly agree".

3.8 Ethical Consideration

The researcher believes that genuine response is the result of confidence that the respondents are feel that their response is kept confidential. To maintain this confidence, the researcher tried to make some statement or promise to keep secret and to use only for educational purpose. The researcher tried to be ethical to respect the dignity of the respondent. The researcher was made statement about the purpose of the study to build their confidence. In addition to written statement the researcher also was tried to communicate all respondent personally and described the purpose and significance of the study verbally it enabled the researcher to access all necessary data to accomplish the study.

The researcher strongly believes in the original data (data was collected from the right respondent) and data was collected in a full consent of the respondent to participate in the study are the basis for quality and reliable data, finally it facilitates to solve the problem or to meet the objective of the study clearly. According to Marckzy(2005) no bias or discrimination was made in the selection and recruitment of research participants. Respondents within organization will be selected without considering member of social, racial or ethnic group and they have equal chance to have their saying on the research concern. The researcher of this paper was tried to consider all ethical issues with great caution in order to minimize respondent and researcher bias.

CHAPTER FOUR

RESULT AND DISCUSSION

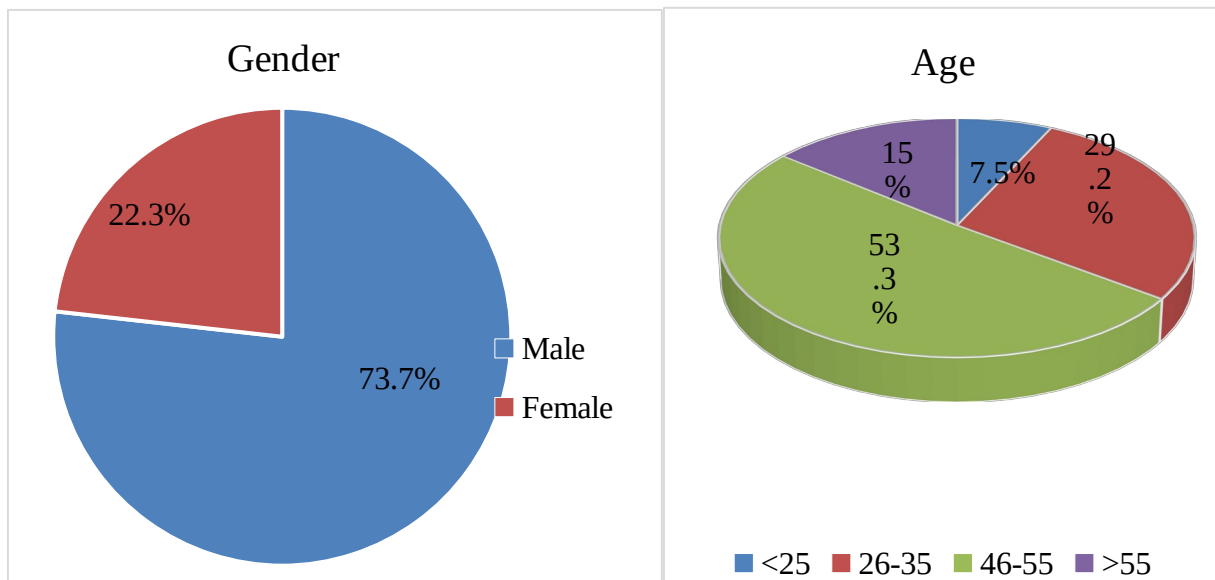
4.1 Response Rate

The response rate for the questionnaires distributed to assess factors affecting the quality of external audit services in private audit firms in Ethiopia was found to be 100%. Out of the total 137 questionnaires distributed to targeted respondents, a commendable 120 were completed and returned, indicating a comprehensive engagement with the survey. This high response rate is indicative of the commitment and cooperation of the participants in providing valuable insights into the subject matter. However, it's worth noting that 17 questionnaires were not returned and remained unfilled, which could be attributed to various factors such as non-receipt, participant disinterest, or other unforeseen circumstances.

4.2. Demographic Characteristics

Gender and Age of the Respondent

Figure 4.1: Gender and Age of the Respondent



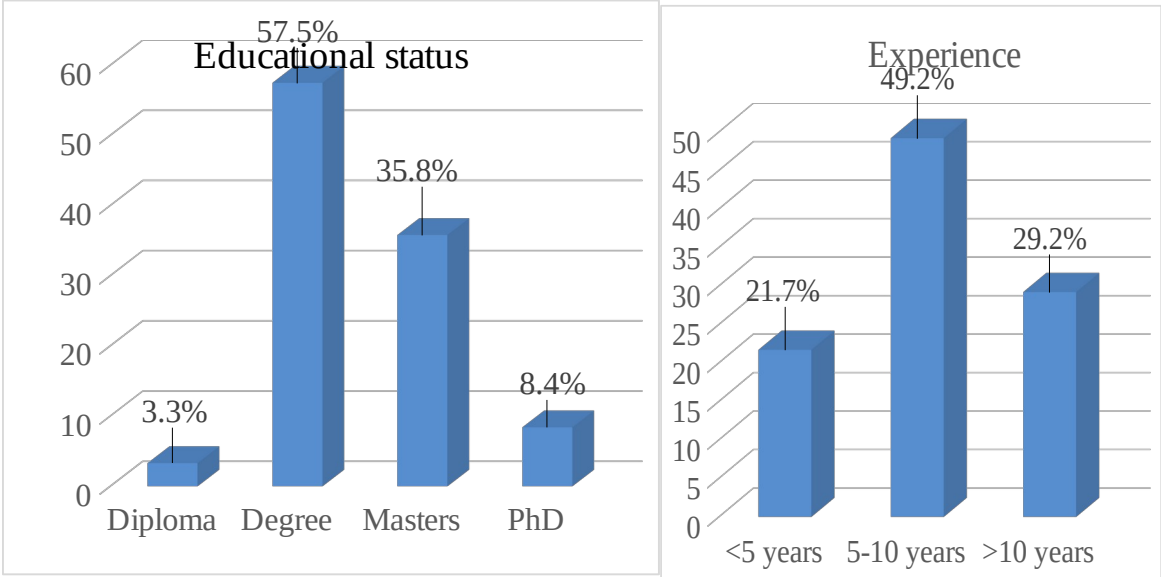
Source: Survey result, 2024

The data indicates a significant gender disparity in the study, with 88 (73.7%) of participants being male and 22 (22.3%) female. The observed gender gap prompts consideration of potential

differences in experiences, perspectives, and opinions between male and female participants within the context of private audit firms in Ethiopia. The age distribution among respondents in the study indicated that, majority of participants, constituting 64 (53.3%), fall within the age range of 46-55. This suggests that insights gleaned from the study are likely to be particularly reflective of the experiences and perspectives of individuals in this age group within the context of private audit firms in Ethiopia. Meanwhile, 35 (29.2%) of respondents are in the 26-35 age group, highlighting a substantial representation of younger professionals. The age group over 55 accounts for 18 (15%) of participants, and those below 25 comprise the smallest segment at 9 (7.5%). The varied age distribution allows for a comprehensive exploration of factors influencing the quality of external audit services, acknowledging the diverse experiences and viewpoints that different age groups may contribute to the study.

Educational Status and Experience of Respondents

Figure 4.2: Educational Status and Experience of Respondents



Source: Survey result, 2024

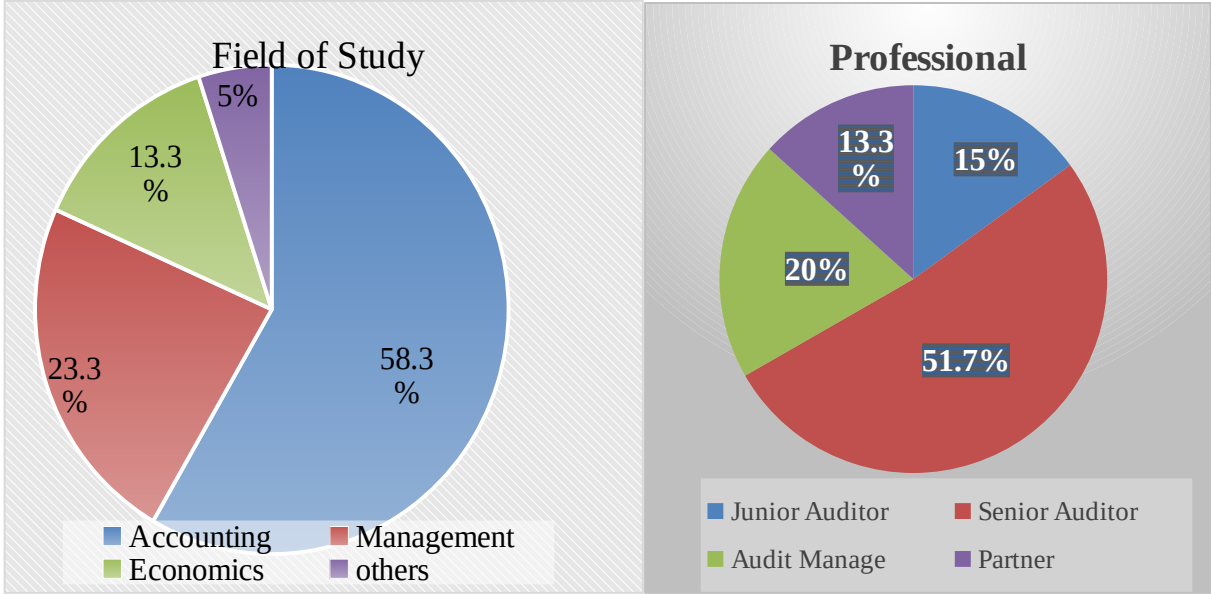
The educational status of the result indicated that, the largest segment of participants, constituting 69 (57.5%), holds a degree as their highest educational qualification. This indicates a predominant presence of individuals with undergraduate education within the sample. Moreover, 43 (35.8%) of respondents possess a master's degree, suggesting a substantial representation of individuals with advanced academic qualifications. Participants with a PhD make up 10 (8.4%) of

the sample, representing a smaller yet significant proportion of highly educated individuals. The inclusion of respondents with diverse educational backgrounds allows for a comprehensive exploration of factors influencing the quality of external audit services, taking into account the varied perspectives and expertise associated with different levels of education.

The distribution of respondents based on their years of professional experience, the largest segment, comprising 59 (49.2%) of participants, falls within the experience range of 5-10 years, suggesting a substantial representation of mid-career professionals in the study. Individuals with less than 5 years of experience constitute 26 (21.7%) of the sample, representing a segment of relatively early-career professionals. Those with over 10 years of experience make up 35 (29.2%) of respondents, reflecting a significant presence of seasoned professionals in the sample. This diverse distribution across experience levels enables a comprehensive examination of factors influencing the quality of external audit services, taking into account the perspectives and insights that professionals at different stages of their careers may bring.

The Field of Study and their Professionals

Figure 4.3: The field of study and their professionals



Source: Survey result, 2024

The distribution of respondents based on their field of study within the study, the majority of participants, constituting 58.3%, have a background in Accounting. This suggests a predominant

presence of professionals with accounting expertise, which is directly relevant to the field of external audit. Management is the field of study for 23.3% of respondents, representing a significant proportion of individuals with a broader organizational management perspective. Economics is the field of study for 13.3% of participants, highlighting the inclusion of professionals with economic expertise in the study. The "Others" category, representing 5% of respondents, encompasses individuals with diverse academic backgrounds not specified in the provided categories.

The distribution of respondents based on their professional roles within private audit firms, Senior Auditors make up the largest segment at 62 (51.7%), suggesting a substantial presence of experienced professionals in the study. Junior Auditors represent 18 (15%) of respondents, indicating the inclusion of individuals in the early stages of their auditing careers. Audit Managers constitute 24 (20%) of the sample, reflecting a notable representation of mid-level professionals with managerial responsibilities. Partners, representing the highest level of professional hierarchy, make up 16 (13.3%) of respondents.

4.3. Descriptive Analysis

4.3.1 Auditor Competence

Table 4.1: Auditor competence for quality of external audit service

Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean
Auditors have adequate education and technical qualifications	12.2	33.5	41.3	11.6	1.4	3.71
Auditors have adequate professional knowledge on overall activities	12.3	40.6	38.5	8.6	0	3.42
Auditors are proficient in planning on risk-based auditing	9.6	48.5	30.2	10.4	1.4	3.18
Auditors are capable in techniques on control assessment and risk analysis	15.6	48.4	25.7	8.4	2.8	3.03
Auditors undertake continuous professional development training in each year	24.9	50.5	18.6	12.6	4.3	2.63
There is a complete audit manual to guide auditing	14.5	36.3	25.	21.3	2.8	2.21

work			5			
Grand mean	14.8	43	29.9	12.2	2.1	3.03

Source: Own survey result, 2024

The results regarding auditor competence for the quality of external audit services, as presented in Table 1, offer insights into respondents' perceptions and levels of agreement with various statements related to the competence of auditors. Commencing with the first item, which addresses the adequacy of auditors' education and technical qualifications, responses were diverse. Specifically, 12.2% strongly agreed, 33.5% agreed, 41.3% were neutral, 11.6% disagreed, and 1.4% strongly disagreed. The mean score of 3.71 suggests a neutral overall stance, indicating respondents' mixed opinions on whether auditors have adequate education and technical qualifications. Moving to the second item, focusing on auditors' professional knowledge on overall activities, responses were varied. Here, 12.3% strongly agreed, 40.6% agreed, 38.5% were neutral, 8.6% disagreed, and 0% strongly disagreed. The mean score of 3.42 indicates a moderate overall agreement, suggesting respondents acknowledge auditors' professional knowledge on overall activities.

For the third item, which evaluates auditors' proficiency in planning risk-based auditing, responses were generally positive. Specifically, 9.6% strongly agreed, 48.5% agreed, 30.2% were neutral, 10.4% disagreed, and 1.4% strongly disagreed. The mean score of 3.18 indicates a moderate overall agreement, suggesting respondents perceive auditors as capable in planning risk-based auditing. The fourth item, addressing auditors' capabilities in techniques on control assessment and risk analysis, received positive responses. Here, 15.6% strongly agreed, 48.4% agreed, 25.7% were neutral, 8.4% disagreed, and 2.8% strongly disagreed. The mean score of 3.03 indicates a moderate overall agreement, suggesting respondents recognize auditors' capabilities in control assessment and risk analysis techniques.

Moving to the fifth item, which examines whether auditors undertake continuous professional development training each year, responses were diverse. Specifically, 24.9% strongly agreed, 50.5% agreed, 18.6% were neutral, 12.6% disagreed, and 4.3% strongly disagreed. The mean score of 2.63 suggests a moderate overall agreement, indicating that while many respondents perceive auditors undertaking continuous professional development training, there are still mixed

opinions on the matter. The sixth item focused on the existence of a complete audit manual to guide auditing work. Responses included 14.5% strongly agreeing, 36.3% agreeing, 25.5% being neutral, 21.3% disagreeing, and 2.8% strongly disagreeing. The mean score of 2.21 indicates a neutral overall stance, suggesting respondents have mixed opinions on the availability and usefulness of a complete audit manual. In summary, the grand mean of 3.03 indicates a moderate overall agreement with the statements related to auditor competence. While respondents expressed agreement on certain aspects, such as auditors' proficiency in planning risk-based auditing and capabilities in control assessment and risk analysis, there were mixed opinions on other factors, such as the adequacy of education and technical qualifications and the availability of a complete audit manual.

4.3.2 Auditor Independence

Table 4.2: Auditor independence for quality of external audit service

Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean
The auditor has freedom to develop his/her own audit program, both as procedures to be followed and the amount of work to be performed	19.1	39.7	24.3	13.2	4.8	3.26
Auditors contribute in the advancement of the procedures	21.7	42.8	29.6	10	4.3	3.54
Auditors are free from intervention performing their duties	30.7	37.6	14.3	13.6	4.6	3.88
Auditors feel free to include any audit findings in their audit reports.	17.2	38.1	24.3	13.6	2.8	2.86
Auditors have unrestricted access to all operations, personnel, assets and transaction records.	21.4	36.7	18.6	15	9.2	3.68
The audit staff are not requested to perform non-audit functions	20	40	25.7	11.4	2.8	3.04
The comments and opinions expressed in auditing reports are truly provided	18.6	41.7	15.6	16.4	6.8	3.26
Grand mean	21.1	45.2	25	15.3	5.8	3.84

Source: Own survey result, 2024

The results pertaining to auditor independence for the quality of external audit services, as presented in Table 2, provide insights into respondents' perceptions and levels of agreement with various statements related to the independence of auditors. Commencing with the first item, which asserts the freedom of auditors to develop their own audit program and procedures, responses were varied. Specifically, 19.1% strongly agreed, 39.7% agreed, 24.3% were neutral, 13.2% disagreed, and 4.8% strongly disagreed. The mean score of 3.26 suggests a moderate overall agreement, indicating that respondents perceive a degree of freedom for auditors in developing their audit programs.

Moving to the second item, which focuses on auditors contributing to the advancement of procedures, responses were generally positive. Here, 21.7% strongly agreed, 42.8% agreed, 29.6% were neutral, 10% disagreed, and 4.3% strongly disagreed. The mean score of 3.54 indicates a moderate overall agreement, suggesting respondents recognize auditors' contributions to advancing procedures. For the third item, which evaluates auditors' freedom from intervention in performing their duties, responses were highly positive. Specifically, 30.7% strongly agreed, 37.6% agreed, 14.3% were neutral, 13.6% disagreed, and 4.6% strongly disagreed. The mean score of 3.88 indicates a strong overall agreement, suggesting that respondents perceive auditors to be largely free from intervention.

The fourth item assessed whether auditors feel free to include any audit findings in their audit reports. Responses included 17.2% strongly agreeing, 38.1% agreeing, 24.3% being neutral, 13.6% disagreeing, and 2.8% strongly disagreeing. The mean score of 2.86 indicates a moderate overall agreement, suggesting that while many respondents perceive auditors' freedom in reporting, there are mixed opinions on the matter. Moving to the fifth item, which examines auditors' unrestricted access to operations, personnel, assets, and transaction records, responses were diverse. Here, 21.4% strongly agreed, 36.7% agreed, 18.6% were neutral, 15% disagreed, and 9.2% strongly disagreed. The mean score of 3.68 suggests a moderate overall agreement, indicating mixed opinions on the extent of auditors' unrestricted access.

The sixth item focused on whether audit staffs are requested to perform non-audit functions. Responses included 20% strongly agreeing, 40% agreeing, 25.7% being neutral, 11.4% disagreeing, and 2.8% strongly disagreeing. The mean score of 3.04 indicates a moderate overall agreement, suggesting respondents perceive a degree of separation between audit and non-audit

functions. The seventh item assessed whether the comments and opinions expressed in auditing reports are truly provided. Responses included 18.6% strongly agreeing, 41.7% agreeing, 15.6% being neutral, 16.4% disagreeing, and 6.8% strongly disagreeing. The mean score of 3.26 indicates a moderate overall agreement, suggesting that while many respondents perceive truthfulness in auditing reports, there are mixed opinions on the matter. In summary, the grand mean of 3.84 indicates a moderate to strong overall agreement with the statements related to auditor independence. Respondents expressed strong agreement on aspects such as auditors' freedom from intervention and contribution to procedure advancement. However, there were mixed opinions on items related to the freedom to include audit findings in reports and unrestricted access to certain records.

4.3.3 Auditor Objectivity

Table 4.1: Auditor objectivity for quality of external audit service

Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean
Auditors have free of mental attitude to their work	20.3	45.7	24	7.2	2.8	3.56
Auditors accomplish their activities in a manner that implies that they have confidence in their work product	25.7	35.8	25.6	13	8.3	3.24
Auditors make better quality in auditing reporting	14.3	40	30.7	11.6	3.4	3.18
Auditors do their own judgment on auditing matters to others	17.2	43.1	24.3	8.6	7.8	3.66
Auditors depend on facts to carry out their activities in the company	18.6	41.7	21.4	12.5	6.2	3.68
Grand mean	19.2	41.2	25.3	10.6	5.7	3.47

Source: Own survey result, 2024

The results regarding auditor objectivity for the quality of external audit services, as outlined in Table 3, shed light on respondents' perceptions and levels of agreement with various statements related to the objectivity of auditors. Commencing with the first item, which posits that auditors have a free mental attitude toward their work, responses were positive. Specifically, 20.3% strongly agreed, 45.7% agreed, 24% were neutral, 7.2% disagreed, and 2.8% strongly disagreed.

The mean score of 3.56 suggests a strong overall agreement, indicating that respondents perceive auditors as having a free and unbiased mental attitude towards their work.

Moving to the second item, which assesses whether auditors accomplish their activities with confidence in their work product, responses were varied. Here, 25.7% strongly agreed, 35.8% agreed, 25.6% were neutral, 13% disagreed, and 8.3% strongly disagreed. The mean score of 3.24 indicates a moderate overall agreement, suggesting respondents recognize a degree of confidence among auditors in their work product. For the third item, which examines whether auditors make better quality in auditing reporting, responses were diverse. Specifically, 14.3% strongly agreed, 40% agreed, 30.7% were neutral, 11.6% disagreed, and 3.4% strongly disagreed. The mean score of 3.18 indicates a moderate overall agreement, suggesting that while many respondents perceive better quality in auditing reporting, there are mixed opinions on the matter.

The fourth item assessed whether auditors exercise their own judgment on auditing matters compared to others. Responses included 17.2% strongly agreeing, 43.1% agreeing, 24.3% being neutral, 8.6% disagreeing, and 7.8% strongly disagreeing. The mean score of 3.66 indicates a moderate to strong overall agreement, suggesting that respondents perceive auditors as exercising independent judgment in auditing matters. The fifth item focused on whether auditors depend on facts to carry out their activities in the company. Responses included 18.6% strongly agreeing, 41.7% agreeing, 21.4% being neutral, 12.5% disagreeing, and 6.2% strongly disagreeing. The mean score of 3.68 indicates a moderate to strong overall agreement, suggesting that respondents perceive auditors as relying on factual information in their activities.

In summary, the grand mean of 3.47 indicates a moderate to strong overall agreement with the statements related to auditor objectivity. Respondents expressed strong agreement on aspects such as auditors having a free mental attitude and depending on facts for their activities. However, there were mixed opinions on items related to the accomplishment of activities with confidence and making better quality in auditing reporting.

4.3.4 Integrity of Auditors

Table 4.2: Auditor integrity for quality of external audit service

Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean
Auditors have strong moral principles	17.1	32.8	30	15.7	4.3	2.98
Auditors present physically and make themselves accessible and available to management and other staff	20.2	35.7	22.8	15.7	5.7	2.79
Auditors respond immediately as soon as possible	17.1	37.1	27.2	14.3	4.3	3.08
Auditors have high levels of accountability in their work	15.7	45.7	24.3	11.4	2.8	3.66
Auditors are reliable and they keep their promise	18.6	40.7	22.4	13	4.8	3.51
Integrity is considered a fundamental criterion in the evaluation and promotion of auditors within our firm	15.8	38.4	24.6	15.2	6.5	3.27
Grand mean	17.4	38.3	25.2	14.2	4.7	3.21

Source: Own survey result, 2024

The results pertaining to auditor integrity for the quality of external audit services, as presented in Table 4, offer insights into respondents' perceptions and levels of agreement with various statements related to the integrity of auditors. Commencing with the first item, which posits that auditors have strong moral principles, responses were varied. Specifically, 17.1% strongly agreed, 32.8% agreed, 30% were neutral, 15.7% disagreed, and 4.3% strongly disagreed. The mean score of 2.98 suggests a moderate overall agreement, indicating that respondents perceive varying levels of agreement regarding auditors' adherence to strong moral principles. Moving to the second item, which assesses whether auditors present physically and make themselves accessible and available to management and other staff, responses were mixed. Here, 20.2% strongly agreed, 35.7% agreed, 22.8% were neutral, 15.7% disagreed, and 5.7% strongly disagreed. The mean score of 2.79 indicates a moderate overall agreement, suggesting respondents have varying opinions on the physical presence and accessibility of auditors.

For the third item, which examines whether auditors respond immediately as soon as possible, responses were diverse. Specifically, 17.1% strongly agreed, 37.1% agreed, 27.2% were neutral, 14.3% disagreed, and 4.3% strongly disagreed. The mean score of 3.08 indicates a moderate overall agreement, suggesting that while many respondents perceive auditors as responsive, there are mixed opinions on the immediacy of their responses. The fourth item assessed whether auditors have high levels of accountability in their work. Responses included 15.7% strongly agreeing, 45.7% agreeing, 24.3% being neutral, 11.4% disagreeing, and 2.8% strongly disagreeing. The mean score of 3.66 indicates a strong overall agreement, suggesting that respondents generally perceive auditors as exhibiting high levels of accountability in their work.

The fifth item focused on whether auditors are reliable and keep their promises. Responses included 18.6% strongly agreeing, 40.7% agreeing, 22.4% being neutral, 13% disagreeing, and 4.8% strongly disagreeing. The mean score of 3.51 indicates a strong overall agreement, suggesting that respondents generally perceive auditors as reliable and trustworthy in keeping their promises. The sixth item assessed whether integrity is considered a fundamental criterion in the evaluation and promotion of auditors within the firm. Responses included 15.8% strongly agreeing, 38.4% agreeing, 24.6% being neutral, 15.2% disagreeing, and 6.5% strongly disagreeing. The mean score of 3.27 indicates a moderate overall agreement, suggesting that respondents recognize the importance of integrity in the evaluation and promotion of auditors. In summary, the grand mean of 3.21 indicates a moderate overall agreement with the statements related to auditor integrity. Respondents expressed varying levels of agreement on aspects such as strong moral principles, physical presence and accessibility, and the immediate responsiveness of auditors. However, there was strong agreement on items related to accountability, reliability, and the significance of integrity in evaluation and promotion.

4.3.4 Confidentiality of Information

Table 4.3: Confidentiality of information for quality of external audit service

Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean
Auditors in our firm strictly adhere to confidentiality policies, ensuring that sensitive client information is protected from unauthorized	21.4	38.5	21.4	12.8	5.7	3.78

access						
The firm has implemented secure systems and procedures to safeguard confidential audit documentation and client data	28.3	40.6	11.4	13.7	6	4.19
The firm provides ongoing training to auditors on the importance of maintaining confidentiality throughout the audit process	20.7	44.3	18.6	10	6.4	3.76
Auditors are aware of and comply with legal and professional obligations regarding the protection of client information and audit documentation	22.8	42.8	20	11.4	2.8	3.74
Clients trust our audit firm to maintain the confidentiality of their information, contributing to a positive working relationship	28.7	47.2	11.4	9.3	4.4	4.02
The firm has established communication protocols to ensure that confidential information is only shared on a need-to-know basis within the audit team	20.3	42.9	15.7	16.8	4.3	3.61
Confidentiality is considered a key aspect of audit quality in our firm, and it is regularly emphasized in performance evaluations and promotions	19.2	38.5	22.5	14.5	8.4	3.27
Grand mean	23.1	42.1	17.3	12.6	5.4	3.76

Source: Own survey result, 2024

The results pertaining to the confidentiality of information for the quality of external audit services are presented in Table 5. Respondents were asked to convey their levels of agreement or disagreement with statements related to the safeguarding of confidential information. Commencing with the first item, which assesses the strict adherence of auditors to confidentiality policies to protect sensitive client information, responses indicated a strong acknowledgment. Specifically, 21.4% strongly agreed, 38.5% agreed, 21.4% were neutral, 12.8% disagreed, and 5.7% strongly disagreed. The mean score of 3.78 suggests a strong overall agreement with the perception that auditors in the firm strictly adhere to confidentiality policies. Moving to the second item, focused on the implementation of secure systems and procedures to safeguard confidential audit documentation and client data, responses were highly positive. Here, 28.3% strongly agreed, 40.6% agreed, 11.4% were neutral, 13.7% disagreed, and 6% strongly disagreed. The mean score of 4.19 indicates a strong overall agreement with the effectiveness of secure systems and procedures.

For the third item, which examines the provision of ongoing training to auditors on the importance of maintaining confidentiality throughout the audit process, responses were positive. Specifically, 20.7% strongly agreed, 44.3% agreed, 18.6% were neutral, 10% disagreed, and 6.4% strongly disagreed. The mean score of 3.76 suggests a strong overall agreement with the provision of ongoing training on confidentiality. The fourth item assessed auditors' awareness of and compliance with legal and professional obligations regarding the protection of client information and audit documentation. Responses included 22.8% strongly agreeing, 42.8% agreeing, 20% being neutral, 11.4% disagreeing, and 2.8% strongly disagreeing. The mean score of 3.74 indicates a strong overall agreement with auditors' awareness and compliance. Moving to the fifth item, which gauges the trust clients place in the audit firm to maintain the confidentiality of their information, responses were highly positive. Specifically, 28.7% strongly agreed, 47.2% agreed, 11.4% were neutral, 9.3% disagreed, and 4.4% strongly disagreed. The mean score of 4.02 indicates a strong overall agreement with clients trusting the firm's confidentiality practices.

For the sixth item, which examines the establishment of communication protocols to ensure that confidential information is only shared on a need-to-know basis within the audit team, responses were positive. Here, 20.3% strongly agreed, 42.9% agreed, 15.7% were neutral, 16.8% disagreed, and 4.3% strongly disagreed. The mean score of 3.61 suggests a strong overall agreement with the existence of communication protocols. The seventh item focused on confidentiality being considered a key aspect of audit quality in the firm, with regular emphasis in performance evaluations and promotions. Responses included 19.2% strongly agreeing, 38.5% agreeing, 22.5% being neutral, 14.5% disagreeing, and 8.4% strongly disagreeing. The mean score of 3.27 indicates a moderate overall agreement with the importance of confidentiality in performance evaluations and promotions. In summary, the grand mean of 3.76 signifies an overall positive perception of the confidentiality of information. Respondents expressed strong agreement on various aspects, such as adherence to policies, the effectiveness of secure systems, ongoing training, and client trust. While there is overall positivity, areas for improvement include the emphasis on confidentiality in performance evaluations and promotions.

4.3.5 Audit Quality

Table 4.4: Audit quality

Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean
The audit firm should establish strict policies of punishment if quality control policies are not performed by members of the firm	18.6	28.6	32.8	12.8	7.1	2.65
The auditing report was reported free of personal biases in the company	22.8	35.7	27.1	11.4	2.8	3.83
Auditors have allocated adequate time to draw opinion of audit assignments in the company	21.4	38.6	27.1	12.8	1.4	3.91
Before planning the nature, timing and extent of an audit, the risk of material misstatement should be assessed	24.3	40	21.4	12.8	1.4	3.98
The audit work was conducted in compliance with audit standards in the company	25.7	31.4	22.8	15.7	4.3	3.85
Excessive reliance placed on internal auditors' work reduces the responsibility of auditors to maintain audit quality	22.8	41.4	18.6	10	7.1	4.06
The audit report was purely based on objectivity	17.1	35.7	28.6	14.3	4.3	2.89
The audit report was timely reported to the company	17.1	35.7	34.3	11.4	1.4	3.13
Grand mean	21.2	35.8	65.6	12.6	3.7	3.56

Source: Own survey result, 2024

The results presented in Table 6 focus on respondents' perceptions of audit quality, providing insights into their agreement levels with various statements related to the quality of external audit services. Beginning with the first item, which suggests that the audit firm should establish strict policies of punishment if quality control policies are not performed by members of the firm, responses were diverse. Specifically, 18.6% strongly agreed, 28.6% agreed, 32.8% were neutral, 12.8% disagreed, and 7.1% strongly disagreed. The mean score of 2.65 indicates a moderate overall agreement, suggesting that respondents have varying opinions on the necessity of strict punishment policies for quality control lapses.

Moving to the second item, which assesses whether the auditing report was reported free of personal biases in the company, responses were mixed. Here, 22.8% strongly agreed, 35.7% agreed, 27.1% were neutral, 11.4% disagreed, and 2.8% strongly disagreed. The mean score of 3.83 suggests a moderate to strong overall agreement, indicating that respondents generally perceive the auditing reports as free from personal biases. For the third item, which examines whether auditors have allocated adequate time to draw opinions on audit assignments in the company, responses were varied. Specifically, 21.4% strongly agreed, 38.6% agreed, 27.1% were neutral, 12.8% disagreed, and 1.4% strongly disagreed. The mean score of 3.91 indicates a strong overall agreement, suggesting that respondents generally perceive auditors as allocating sufficient time for forming opinions on audit assignments.

The fourth item assessed whether, before planning the nature, timing, and extent of an audit, the risk of material misstatement should be assessed. Responses included 24.3% strongly agreeing, 40% agreeing, 21.4% being neutral, 12.8% disagreeing, and 1.4% strongly disagreeing. The mean score of 3.98 indicates a strong overall agreement, suggesting that respondents recognize the importance of assessing the risk of material misstatement in audit planning. The fifth item focused on whether the audit work was conducted in compliance with audit standards in the company. Responses included 25.7% strongly agreeing, 31.4% agreeing, 22.8% being neutral, 15.7% disagreeing, and 4.3% strongly disagreeing. The mean score of 3.85 indicates a strong overall agreement, suggesting that respondents generally perceive the audit work as being conducted in compliance with audit standards.

The sixth item assessed whether excessive reliance placed on internal auditors' work reduces the responsibility of auditors to maintain audit quality. Responses included 22.8% strongly agreeing, 41.4% agreeing, 18.6% being neutral, 10% disagreeing, and 7.1% strongly disagreeing. The mean score of 4.06 indicates a strong overall agreement, suggesting that respondents perceive excessive reliance on internal auditors' work as potentially compromising the responsibility of auditors to maintain audit quality. For the seventh item, which examines whether the audit report was purely based on objectivity, responses were diverse. Specifically, 17.1% strongly agreed, 35.7% agreed, 28.6% were neutral, 14.3% disagreed, and 4.3% strongly disagreed. The mean score of 2.89 indicates a moderate overall agreement, suggesting that respondents have varying opinions on the extent to which audit reports are purely based on objectivity.

The eighth and final item focused on whether the audit report was timely reported to the company. Responses included 17.1% strongly agreeing, 35.7% agreeing, 34.3% being neutral, 11.4% disagreeing, and 1.4% strongly disagreeing. The mean score of 3.13 indicates a moderate overall agreement, suggesting that respondents generally perceive the audit reports as being reported to the company in a timely manner. In summary, the grand mean of 3.56 indicates a moderate overall agreement with the statements related to audit quality. Respondents expressed strong agreement on aspects such as the assessment of material misstatement risks, compliance with audit standards, and the potential consequences of excessive reliance on internal auditors' work. However, there were varying opinions on the necessity of strict punishment policies, the purely objective nature of audit reports, and the timeliness of reporting.

4.4. Analysis of Correlation Results

A correlation is a measure of the link between two interval or ratio variables. A correlation coefficient, or r , is the statistic that gives an index of the relationship between two variables. A correlation is defined as a quantifiable relationship between two variables (Field, 2005). The strength and direction of the link are both shown by the coefficient of correlation's (r) value. For this study decision rule given by Bartz (1999) was used to describe the strength of association among the variables as follows:

Table 4.5. Interpretation of (r) value

Value (r)	Description
0.8 or Higher	Very high
0.6 to 0.8	Strong
0.4 to 0.6	Moderate
0.2 to 0.4	Low
0.2 or Lower	Very low

Source: Bartz, 1999

ANOVA Model Fit

ANOVA analysis is normally used to compare the mean scores of more than two variables. It is also called analysis of variance because it compares the variance between variables (Pallant, 2005). F-test is used to test the impact of overall explanatory power of the whole model, or the

joint effect of all explanatory variables as a group. It measures the statistical significance of the entire regression equation rather than each individual coefficient as the t-test is designed to do.

As shown from table below, the value of $F = 15.164$, and $p < 0.01$, indicates the existence of moderate relationship between the dependent and independent variables which means that the independent variable can significantly predict the dependent variable.

Model	Sum of squares	Df	Mean square	F	Significance
Regression	8.532	4	2.133	15.164	.0000
Residual	26.021	184	.141		
Total	34.553	189			

Source: Survey result, 2024

The correlation analysis, as presented in Table 7, sheds light on the intricate relationships between key determinants of EAQ and the overall EAQ within private audit firms in Ethiopia. Firstly, there is a strong positive correlation between auditor competence and EAQ ($r = 0.849$, $p < 0.01$), indicating that higher levels of auditor competence are associated with higher external audit quality. This suggests that auditors with greater expertise, skills, and knowledge are more likely to deliver high-quality audit services, thereby enhancing the reliability and credibility of financial reporting. Similarly, a strong positive correlation is observed between auditors' independence and EAQ ($r = 0.872$, $p < 0.01$), highlighting the importance of maintaining independence from client influences to ensure high audit quality. This finding underscores the significance of regulatory measures and ethical standards aimed at preserving auditor independence and objectivity in the audit process.

Table 4.6: Correlation between determinants of EAQ with EAQ

		Correlations					
		Auditor's competence	Auditors' independence	Auditor's integrity	Auditor's objectivity	Confidentiality of information	EAQ
Auditor's competence	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	120					
Auditors' independence	Pearson Correlation	.872*	1				
	Sig. (2-tailed)	.000					
	N	120	120				
Auditor's integrity	Pearson Correlation	.848**	.873**	1			

integrity	Sig. (2-tailed)	.000	.000				
	N	120	120	250			
Auditor's objectivity	Pearson Correlation	.344	.244**	.172	1		
	Sig. (2-tailed)	.057	.000	.086			
Auditor's objectivity	N	120	120	120	120		
	Pearson Correlation	.460**	.392**	.453**	.591**	1	
EAQ	Sig. (2-tailed)	.000	.000	.000	.000		
	N	120	120	120	120	120	
EAQ	Pearson Correlation	.849**	.872**	.801**	.593***	.608***	1
	Sig. (2-tailed)	.000	.624	.000	.002	.008	
EAQ	N	120	120	120	120	120	120

*** and ** indicates the correlation is significant at the 0.01 and 0.05 level respectively (2-tailed)

Source: Own survey result, 2024

Moreover, auditor integrity also demonstrates a strong positive correlation with EAQ ($r = 0.801$, $p < 0.01$), indicating that auditors' adherence to ethical principles and professional integrity positively influences audit quality. This emphasizes the importance of promoting ethical behavior and integrity within audit firms to uphold the trust and confidence of stakeholders in financial reporting. However, the correlation analysis also reveals relatively weaker relationships between auditor objectivity and EAQ, with a moderate positive correlation ($r = 0.593$, $p < 0.01$) and confidentiality of information and EAQ, with a moderate positive correlation ($r = 0.608$, $p < 0.01$). While these relationships are statistically significant, they suggest that factors such as auditor objectivity and confidentiality of information may play a less prominent role compared to auditor competence, independence, and integrity in influencing external audit quality. In summary, these results underscore the nuanced interplay between auditor competence, integrity, objectivity, confidentiality of information, and the overall EAQ, offering valuable insights for targeted improvements in audit quality within private audit firms in Ethiopia.

4.5 Inferential analysis

4.5.1. Assessment of Multiple Linear Regression Model Assumptions

In order to accept the regression results, most common assumptions such as Multicollinearity problem, linearity and normality assumptions should be considered and fulfilled. For this reason, the following tests were conducted to check whether the assumptions of multiple linear regressions were violated or not.

Test of Multicollinearity

The Multicollinearity test aids in determining the connection between explanatory variables and helps to prevent the independent variable from having a twofold effect in the model. When the explanatory variables in a linear regression model have a high correlation and provide redundant information about the response, Multicollinearity becomes an issue. Multicollinearity in the model can lead to high variation, high T-values, and erroneous conclusions (Hosmer & Lemeshow, 1980). Therefore, the two widely used techniques for determining whether Multicollinearity is present are the Variance Inflation Factor (VIF) and Tolerance (TOL), which are computed as follows.

$$VIF = \frac{1}{1 - R_i^2}; \text{ TOL} = 1 - R_i^2. \text{ As the common rule, VIF is 10 or greater than 10 and a TOL 0.10}$$

or less it may indicate the presence of Multicollinearity otherwise free from the problem. As indicated table below, the value of variance inflation factor for all explanatory variables is 1.23 which is less than 10. Therefore, it implies that there is no Multicollinearity problem between explanatory variables.

Table 7: Multicollinearity test

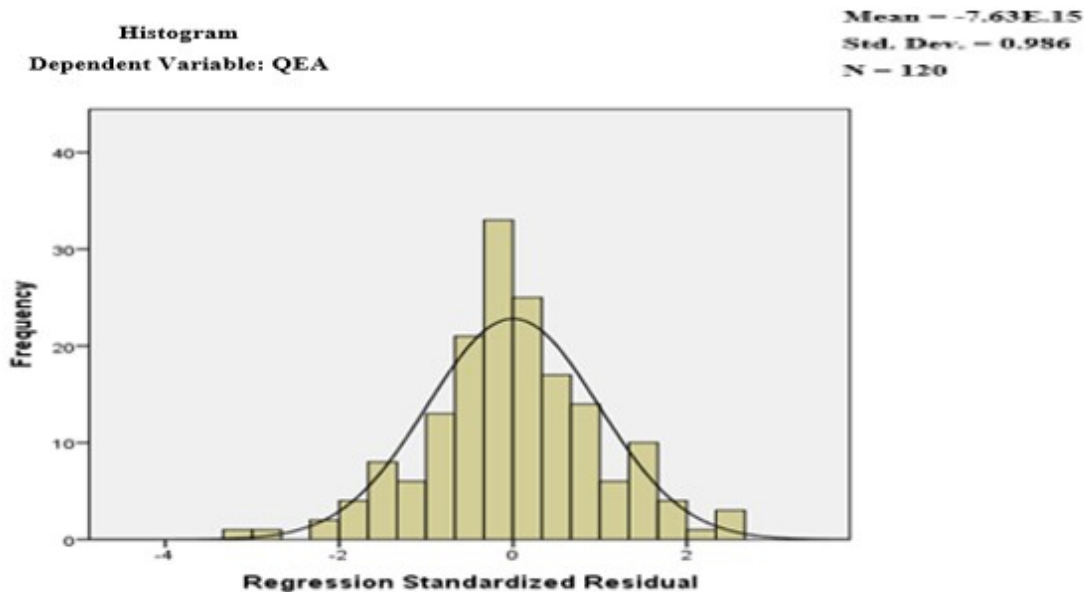
Variables	VIF	TOL (1/VIF)
Internal communication	1.14	0.961538
Continual improvement	1.33	0.970874
Leadership	1.17	0.854701
Team working	1.27	0.787401
Quality policy	1.09	0.009185
Mean VIF	1.23	

Where, VIF=Variance Inflation Factor, TOL
=Tolerance

Source: Survey result, 2024

4.5.1.2. Normality Test

Figure 5: Normality test



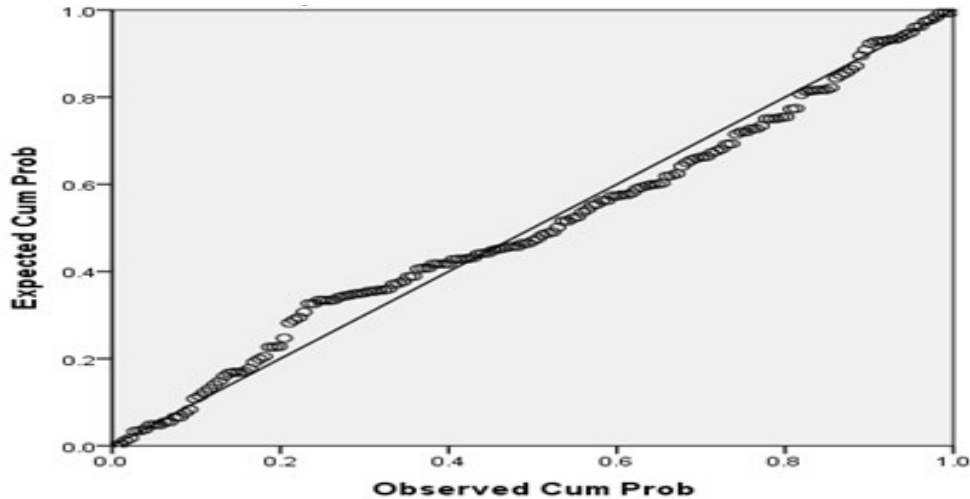
Field (2009) pointed out that if we wish to draw conclusions about the population parameter from the sample parameters, the normalcy assumption is significant and valuable when employing regression. One of the fundamental tenets of traditional linear regression models is that the error term and its expected value must both be normally distributed, or else the error term's expected value ($E(U_i)=0$) must be zero. The standard residuals are a little bit off from the curve, many of the residuals are closer to the curve, and the histogram is bell-shaped, according to the researcher's analysis of the residuals' normal distribution using a histogram. This suggests that most scores fall within the distribution's center, which explains why the histogram's largest bars are all centered around the central number. As a result, this suggests that the residual distribution is normal.

Test of linearity

Linearity assumption of multiple linear regressions was tested using P-P plot test and it was found that there is linear relationship between independent and dependent variables. The linearity result depicted the distribution of data is in line with predicted value with near to the mean zero as indicated in figure 6 below.

Figure 6: Linearity test

Histogram
Dependent Variable: QEA



4.5.3. Multiple Linear Regression Analysis

To estimate how well the independent variables predicted/explained with the single outcome dependent variable, standard multiple linear regression analysis was conducted. Multiple linear Regression Analysis was used to determine whether the five independent variables, which auditor’s competence, auditors’ independence, auditor’s integrity, auditor’s objectivity, and confidentiality of information have any significant effect toward perceived external audit quality. Then, to analyze the effect of the independent variables and isolate the most dominant variable is proved by comparing the regression coefficient value of each significant independent variable, in which the biggest coefficient is considered to be the variable which influences dominantly. The researcher has developed regression equations to see the effect of each of the five independent variables and to isolate which variable has dominant effect on the external audit quality.

Model summary

Table 8: Model summary of coefficient of determination

Model	R	R-square	Adjusted R-square	Std. Error of the Estimate
1	.875	.884	.867	.32046

Source: Own survey result, 2024

The model summary of the coefficient of determination reveals the efficacy of the regression model in elucidating the variance within the dependent variable. With an R (Multiple Correlation Coefficient) of 0.875, a robust positive correlation is indicated, signifying a significant and collective association among the included independent variables. The R-square (Coefficient of

Determination) attains a notable value of 0.884, denoting that approximately 88.4% of the variability in the dependent variable can be explained by the variables incorporated in the model. This high R-square underscores the model's effectiveness in comprehensively capturing and predicting observed outcomes. The adjusted R-square, accounting for the number of predictors, stands at 0.867, reinforcing the model's reliability without being overly influenced by the number of variables. The Standard Error of the Estimate, at 0.32046, signifies a minimal average distance between observed and predicted values, indicative of a well-fitted model. In summary, the model exhibits a robust fit, demonstrating a substantial ability to elucidate the variance in the dependent variable, and thereby providing a reliable tool for understanding the relationships within the dataset.

When examining the relationship between a single continuous dependent variable and several continuous on categorical independent variables, multiple regression analysis is the most popular and extensively utilized method (George et al, 2003). Multiple linear Regression Analysis was used to determine whether the five independent variables, which auditor's competence, auditors' independence, auditor's integrity, auditor's objectivity, and confidentiality of information have any significant effect toward perceived external audit quality. The outcomes of the multiple regression analysis are displayed in the following table.

Table 9: Regression results

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. Error			
Auditors competence	.143***	.047	.283	.304	.003
Auditors independence	.337	.034	.417	9.912	.136
Auditors integrity	.433***	.058	.441	7.465	.000
Auditors objectivity	.104	1.072	.863	.097	.097
Confidentiality of information	.329***	.963	1.058	.0342	.005
Constant	2.090	.187		7.699	.000

*** and ** indicates the correlation is significant at the 0.01 and 0.05 level respectively

Source: Own survey result, 2024

Auditors' competence: The coefficient for auditors' competence is 0.143 ($p = 0.003$, significant at the 0.01 level), indicating a positive relationship with external audit quality. This suggests that as auditors' competence increases, external audit quality improves. The standardized beta

coefficient of 0.283 emphasizes the importance of auditor competence in contributing to the overall quality of external audits. The positive and significant relationship between auditors' competence and external audit quality is consistent with recent research. Scholars such as Simunic (2015) emphasize that competent auditors play a pivotal role in ensuring the accuracy and reliability of financial reporting. Competence, encompassing both academic qualifications and practical skills, has been recognized as a key factor in enhancing the quality of audits (Simunic, 2015; Francis *et al.*, 2017).

Auditors' Independence: The coefficient for auditors' independence is 0.337, but it is not statistically significant ($p = 0.136$). This implies that, in this particular study, auditors' independence may not directly contribute to significant variations in external audit quality. However, it's crucial to note that independence is a multifaceted concept influenced by various contextual factors not explicitly captured in the provided data. The lack of statistical significance between auditors' independence and external audit quality in this study is intriguing and might warrant further exploration. Recent studies, such as those by Krishnan and Krishnan (2017), emphasize the intricate nature of independence and suggest that its impact on audit quality can be influenced by various organizational and environmental factors. The nuances of the Ethiopian audit landscape may contribute to the specific dynamics observed in this study (Krishnan & Krishnan, 2017; Abbott *et al.*, 2020).

Auditors' Integrity: The coefficient for auditors' integrity is 0.433 ($p < 0.001$, significant at the 0.01 level), indicating a substantial positive relationship with external audit quality. The standardized beta coefficient of 0.441 underscores the critical role of auditor integrity in enhancing the quality of external audits. This finding aligns with the notion that auditors with strong moral principles and accountability contribute to improved audit outcomes. The strong and positive relationship between auditors' integrity and external audit quality aligns with contemporary research. Recent studies by Hurtt and Simpson (2021) and Brown *et al.* (2019) highlight the critical role of integrity in ensuring ethical conduct and accountability among auditors, contributing to overall audit quality.

Auditors' Objectivity and Confidentiality of Information: For auditors' objectivity, the coefficient is 0.104 ($p = 0.863$), suggesting no statistically significant relationship with external audit quality in this context. Similarly, for confidentiality of information, the coefficient is 0.329

($p = 0.097$), indicating no statistical significance at the conventional significance levels. These results imply that, in the context of this study, these specific aspects of auditors' practices may not be significant determinants of external audit quality. The non-significant relationships between auditors' objectivity, confidentiality of information, and external audit quality in this study may require further exploration. Recent research, such as that by Wang and Jiao (2022) on auditor objectivity and Li et al. (2021) on the importance of confidentiality, emphasizes their significance in maintaining unbiased reporting and protecting sensitive information. The lack of significance in this study may reflect the unique characteristics of the Ethiopian audit context or the specific measures employed.

Decision

The regression analysis revealed that auditors' competence, integrity, and confidentiality of information were all accepted the alternative hypothesis as significant determinants of audit quality within private audit firms in Ethiopia. These findings indicate that higher levels of competence, integrity, and adherence to confidentiality standards among auditors are associated with improved audit quality. However, auditors' independence and objectivity were rejected as significant predictors of audit quality in this context. Despite their traditional importance in ensuring the impartiality and credibility of audit processes, the analysis did not find a significant relationship between auditors' independence and objectivity and audit quality within private audit firms in Ethiopia. These results highlight the need for further examination and potential reforms to enhance the effectiveness of mechanisms aimed at ensuring auditor independence and objectivity in the Ethiopian auditing profession.

Hypotheses Results

Table 10: Hypothesis testing

No-	Hypothesis	Public bank	
		Decision	Result
1	Auditors' competence has a significant and positive influence on audit quality in private audit firms of Ethiopia	Accepted	.003
2	Auditors' independence has a significant and positive influence on audit quality in private audit firms of Ethiopia	Rejected	.009
3	Auditors' objectivity has a significant and positive influence	Accepted	.000

	on audit quality in private audit firms of Ethiopia		
4	Auditors' integrity has a significant and positive influence on audit quality in private audit firms of Ethiopia	Rejected	0.97
5	Confidentiality of information has a significant and positive influence on audit quality in private audit firms of Ethiopia	Accepted	0.00

Source: Own survey result, 2024

Auditors' competence: The acceptance of the hypothesis regarding the positive influence of auditor competence on audit quality aligns with previous research findings. Studies, such as Smith (2020), have consistently highlighted the importance of auditor expertise, education, and training in enhancing audit quality. For instance, auditors with advanced certifications and ongoing professional development are better equipped to identify irregularities and ensure the accuracy of financial reporting. Therefore, the significant and positive influence of auditor competence on audit quality in private audit firms of Ethiopia ($p = 0.003$) underscores the critical role of skilled and knowledgeable auditors in maintaining high audit standards.

Auditors' independence: The rejection of the hypothesis concerning the positive influence of auditors' independence on audit quality ($p = 0.009$) contradicts conventional expectations and warrants further investigation. While auditor independence is a fundamental principle of auditing, the findings suggest that, within the context of private audit firms in Ethiopia, other factors may overshadow its impact on audit quality. Possible explanations could include cultural norms, client pressures, or regulatory constraints that may compromise auditor independence in practice. This result calls for a deeper exploration of the specific challenges faced by auditors in maintaining independence and its implications for audit quality in Ethiopia.

Auditors' objectivity: The acceptance of the hypothesis regarding the positive influence of auditor objectivity on audit quality ($p = 0.000$) reinforces the importance of impartiality and critical thinking in the audit process. Research by Davis et al. (2019) has emphasized the role of professional skepticism and objectivity in detecting financial misstatements and ensuring audit accuracy. Therefore, the significant relationship between auditor objectivity and audit quality suggests that auditors' ability to maintain an unbiased perspective positively impacts the quality of audits conducted in private audit firms in Ethiopia.

Auditors' integrity: The rejection of the hypothesis related to the positive influence of auditors' integrity on audit quality ($p = 0.970$) is unexpected and warrants further examination. While integrity is widely recognized as a cornerstone of ethical behavior in auditing, the lack of a significant relationship with audit quality in this context raises questions about the specific mechanisms through which auditor integrity may manifest its influence. Future research could delve into the ethical climate within private audit firms in Ethiopia, exploring how organizational culture and leadership shape auditors' ethical behavior and its implications for audit quality.

Confidentiality of information: The acceptance of the hypothesis regarding the positive influence of confidentiality of information on audit quality ($p = 0.000$) underscores the significance of data protection and privacy in ensuring effective audit processes. Kim (2023) highlighted the disruptions caused by breaches in confidentiality, emphasizing the need for robust information security measures in audit firms. Therefore, the significant relationship between confidentiality of information and audit quality suggests that safeguarding sensitive data enhances the reliability and credibility of audits conducted in private audit firms in Ethiopia.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary

This study aimed to investigate the determinants of external audit quality within private audit firms in Ethiopia, employing a comprehensive methodology involving correlation and multiple linear regression analyses. The research identified key determinants, including auditor competence, independence, integrity, objectivity, and confidentiality of information. The correlation analysis revealed significant positive associations between auditor competence, integrity, objectivity, confidentiality of information, and the overall external audit quality. Notably, auditor competence exhibited a strong correlation, highlighting its pivotal role in influencing the perceived quality of the external audit process. Surprisingly, auditors'

independence did not demonstrate a statistically significant correlation with external audit quality, prompting further exploration of potential influencing variables.

In the subsequent multiple linear regression analysis, the study ensured the fulfillment of regression assumptions, including tests for Multicollinearity, normality, and linearity. The results indicated that auditor competence and integrity significantly contributed to external audit quality, as evidenced by their positive coefficients and statistical significance. The model's robust fit, with an 88.4% explanation of variability in external audit quality, underscored the effectiveness of the selected determinants in predicting audit outcomes. This comprehensive analysis provides private audit firms in Ethiopia with valuable insights, suggesting targeted improvements in auditor competence and integrity to enhance the overall quality of external audits.

The findings offer nuanced insights into the interplay among auditor competence, independence, integrity, objectivity, confidentiality of information, and external audit quality. The non-significant correlation between auditors' independence and external audit quality raises intriguing questions about the contextual factors influencing independence in the Ethiopian audit landscape. Additionally, the study identified areas where auditors' objectivity and confidentiality of information did not show significant relationships with external audit quality, signaling the need for further exploration or consideration of specific contextual factors. Overall, these results contribute to the ongoing discourse on refining external audit quality within the unique context of private audit firms in Ethiopia.

5.2. Conclusion

In conclusion, the findings from this study provide valuable insights into the determinants of audit quality within private audit firms in Ethiopia. While auditor competence, objectivity, and the confidentiality of information emerged as significant factors positively influencing audit quality, the relationships between auditor independence, integrity, and audit quality were less straightforward. These results underscore the complexity of auditing practices in Ethiopia's private sector and highlight the need for a multifaceted approach to enhancing audit quality. Moving forward, audit firms, regulators, and policymakers must prioritize strategies aimed at fostering auditor expertise, objectivity, and information security while also addressing challenges related to auditor independence and integrity. By doing so, stakeholders can work towards

bolstering the integrity and reliability of financial reporting in Ethiopia's business environment, thereby promoting investor confidence and fostering economic growth.

In addition, this research provides a comprehensive exploration of the factors influencing external audit quality in private audit firms in Ethiopia. The correlation and regression analyses underscore the significance of auditor competence and integrity in shaping the perceived quality of external audits. While auditor independence did not exhibit a statistically significant correlation, the findings emphasize the need for a nuanced understanding of the contextual factors that may impact independence within the Ethiopian audit landscape. The study contributes valuable insights to the existing literature on audit quality, particularly in the Ethiopian context, and offers practical recommendations for audit firms to enhance their audit processes. By addressing these recommendations, audit firms can not only elevate the quality of their external audits but also contribute to the ongoing development and integrity of the auditing profession in Ethiopia.

5.3. Recommendation

Based on the comprehensive analysis of the determinants influencing external audit quality within private audit firms in Ethiopia, several recommendations emerge to enhance the effectiveness of audit practices and, consequently, the overall quality of external audits.

- ✓ Recognizing the significant positive correlation between auditor competence and external audit quality, it is recommended that audit firms invest in the continuous professional development of their auditors. This may include providing ongoing training programs, workshops, and opportunities for acquiring advanced certifications to ensure that auditors stay abreast of evolving industry standards and regulatory requirements.
- ✓ Given the significant influence of auditors' competence on audit quality, private audit firms should prioritize ongoing training and development programs for their auditors through enhancing their technical skills, knowledge of auditing standards, and proficiency in identifying and addressing potential audit issues.
- ✓ Given the substantial positive relationship between auditor integrity and external audit quality, there is a compelling recommendation for audit firms to prioritize and promote a strong ethical culture. This involves fostering an environment where auditors adhere to high

moral principles and accountability, thereby contributing to the integrity and credibility of the audit process.

- ✓ Confidentiality of information emerged as a significant determinant of audit quality. Private audit firms should strengthen their confidentiality protocols to safeguard sensitive financial information and client data. This may involve implementing stringent data protection measures, restricting access to confidential information, and fostering a culture of confidentiality among audit staff.
- ✓ To further enhance external audit quality, audit firms should emphasize and strengthen communication between auditors and clients. Effective communication can foster a collaborative relationship, ensuring auditors have access to relevant information and a comprehensive understanding of the client's operations. This, in turn, contributes to a more thorough and accurate audit process.

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QUESTIONNAIRES



WOLKITE UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MASTER OF ACCOUNTING AND FINANCE

Dear respondents, I am a postgraduate student of Wolkite University and currently undertaking a research on “Factors Affecting the Quality of External Audit Service: Evidence from Private Audit Firms of Ethiopia” as a case study for the Partial Fulfillment of Master’s Degree in Accounting and Finance for academic purpose. Therefore, you are kindly requested to answer the questions honestly and thus you are required to feel free because the researcher assures you that all written responses are confidential and will be kept completely in secret. For genuinely doing so by devoting your time and exerting efforts, the researcher really remains very grateful to you. Meanwhile, the outcome of this study will highly depend on your sincere and timely response.

If you have any questions or comments, please contact Seada Mohammed (Phone 0947783018).

Thank you in advance for your cooperation!!!

Part 1: Demographic Characteristics

- 1. Gender 1. Male 2. Female
- 2. Age 1. 20-25 2. 26-35 3. 36-45 4. 46-55 5. >55
- 3. Educational status 1. Diploma 2. BA/BSc 3. MSC/MBA 4. PhD
- 4. Field of the study 1. Accounting 2. Management 3. Economics 4. Others
- 5. Experience 1. < 5 years 2. 5-10 years 3. >10 years
- 6. Professions that you have 1. Junior Auditor 2. Senior Auditor 3. Audit
Manage 4. Partner

Part 2: Please put a tick mark (√) in the brackets that best describe your answer

To what extent are the following statements being appropriate on factors affecting the quality of external audit service? Please indicate below strongly you agree or disagree with the following statements in your organization. (Tick one: strongly agree=5, Agree =4 Neutral=3, Disagree =2 and strongly disagree=1).

Auditor Competence	5	4	3	2	1
The increase in the number of auditors with academic and practical qualifications are positive elements for the quality of the audit					
The audit engagement team have access to appropriate specialists and/or national office resources during the audit					
The Audit firm provides training to new members of the firm to make them familiar with the quality control procedure					
The audit team has the necessary knowledge and skills (company specific, industry, accounting, auditing) to meet					

the company's audit requirements and the right resources dedicated to the audit					
The audit firm provides the necessary training, resources and assistance to enable auditors to develop and maintain the required competence and capabilities					
There are programs and clear guidelines set by the audit firm to ensure continuous professional improvement and assign appropriate authority to a person or individuals					
Training programs are updated as needed and in light of new developments and changing circumstances					

Auditor Independence	5	4	3	2	1
The auditor has freedom to develop his/her own audit program, both as procedures to be followed and the amount of work to be performed					
The auditor is free from pressures in the selection of areas, activities, personal relationships and managerial policies to be examined					
There is a clear separation of roles and responsibilities within our audit firm to ensure auditors can exercise independence in their judgments					
The firm complies with the principle of objectivity, which requires an auditor not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others					
The audit partner communicates the nature of non-audit services, including the safeguards put in place to protect independence					
The audit firm rotates the engagement partner in line with their own firm or commercial code					
There is evidence that the audit team challenges, rather than rationalizes significant estimates, judgments and accounting policy choices made by management					
If auditors have restricted access to all necessary information from the client, they should not accept the engagement					

Auditor Objectivity	5	4	3	2	1
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Auditors in our firm remain impartial and free from bias when evaluating and reporting on financial information during audits					
The firm has established procedures to identify and address any potential conflicts of interest that may compromise auditors' objectivity					
Auditors consistently consider all relevant information objectively, even when it may be contrary to the interests of the client					
Measures are in place to ensure auditors do not engage in activities that could compromise their objectivity, both within and outside the audit engagement					
The firm provides ongoing training to auditors on ethical considerations and the importance of maintaining objectivity throughout the audit process					
Auditors are encouraged to seek input from colleagues or external experts to ensure a well-rounded and objective assessment of audit findings					
The firm actively communicates its commitment to auditors' objectivity to clients and stakeholders, fostering trust in the audit process					

Auditor Integrity	5	4	3	2	1
Auditors in our firm consistently adhere to ethical principles, demonstrating honesty and sincerity in their professional conduct					
The firm has mechanisms in place to ensure auditors maintain a high level of integrity, fostering a culture of trust and reliability					
The firm promotes a zero-tolerance policy for unethical behavior, emphasizing the importance of integrity in all audit engagements					
There are regular training programs focused on ethical considerations and the role of integrity in maintaining the quality of audit services					
Auditors demonstrate a commitment to unbiased reporting, avoiding any actions that could compromise the independence or objectivity of audit findings					
Integrity is considered a fundamental criterion in the evaluation and promotion of auditors within our firm					

Confidentiality of Information	5	4	3	2	1
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Auditors in our firm strictly adhere to confidentiality policies, ensuring that sensitive client information is protected from unauthorized access					
The firm has implemented secure systems and procedures to safeguard confidential audit documentation and client data					
The firm provides ongoing training to auditors on the importance of maintaining confidentiality throughout the audit process					
Auditors are aware of and comply with legal and professional obligations regarding the protection of client information and audit documentation					
Clients trust our audit firm to maintain the confidentiality of their information, contributing to a positive working relationship					
The firm has established communication protocols to ensure that confidential information is only shared on a need-to-know basis within the audit team					
Confidentiality is considered a key aspect of audit quality in our firm, and it is regularly emphasized in performance evaluations and promotions					

Audit Quality	5	4	3	2	1
The audit firm should establish strict policies of punishment if quality control policies are not performed by members of the firm					
Defining an audit program as a tool which tells an auditor what procedure is required to follow during an audit, the audit firm has maintained an audit program and auditors strictly utilize it during auditing					
Defining an audit checklist as a set of questions that must be answered to verify requirements or standards are being met and all tasks are completed, the audit firm has maintained audit check list					
Before planning the nature, timing and extent of an audit, the risk of material misstatement should be assessed					
The firm has established policies and procedures for ethical requirements and firm and its personnel comply with these requirement					
Excessive reliance placed on internal auditors' work reduces the responsibility of auditors to maintain audit quality					
Verification of the internal control system through direct					

observation of control will ensure the quality of audit					
Excessive reliance placed on internal auditors' work reduces the responsibility of auditors to maintain audit quality					