

**Quality of Audit and Factors Affecting it with reference to
Amhara National Regional State Office of Auditor General**

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Executive Summary

Audit quality contributes to the overall quality of financial reporting and auditing standards now require auditors to discuss the qualitative aspects of the entity's reporting practices with those charged with governance. The main purpose of this study is to examine the quality of audit and its determinant factors in the case of ANRS OAG audit reports. The research applies a mixed research approach with an explanatory and descriptive research design. The target population for the research is those employees who are working in the Office of Auditor General and government offices audited by OAG. The study applies purposive and stratified sampling technique to select samples of the study under consideration. The data was collected based on primary data type through interview, focus-group discussion and questionnaire and from secondary data. A total of 80 auditors, 147 auditees, 3 FGD, 10 audit files were used for the data collection and data analysis. For data analysis descriptive statistical method, correlation analysis and regression analysis were applied in this research. In compliance to audit standards OAG in its existence, the appointment of the Head and the necessary degree of independence is spelled out in the regional constitution. Auditors' technical competence, independence, audit reporting quality and auditors' responsiveness to clients' needs are the major contributing factors for perceived audit quality. Efficiency of top management, supervision, the will of politicians/executives, oversight of OAG, autonomy, reward mechanism, and turnover of staffs are perceived as the causes that affect the quality of audit. From this study we have found that the quality of audit is compromised and at least it is deteriorating through time when it is compared to the previous years' results. The office's audit quality has been in a declining trend basically due to lack of auditors' commitment, skill and experience of auditors, lack of frequent supervision, the existence of high senior auditors' turnover, and the absence of a well-established quality assurance system as a department. To conclude, the quality of audit is compromised either through the customization process of AFROSAI-E standard or lack of proper supervision and negligence of auditors in following the customized RAM standard when we compare audit reports with audit standards. According to the findings of this research OAG is expected to establish quality assurance department, conduct continuous and regular training for auditors and create smooth working environment. There should be strong oversight body that closely follows the activities of OAG and additional resources and autonomy has to be granted for OAG in order to increase the coverage of auditing for the regional states revenues, expenditures and assets/liabilities.

Key Words: AFROSA-E Standard, Government Offices, Perceived Audit Quality, Supervision

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Acronyms

AFROSAI-E Standard	African Organization of English-Speaking Supreme Audit Institutions
ANRS	Amhara National Regional State
AQ	Audit Quality
CLERP 9	Corporate Law Economic Reform Program
FGD	Focus Group Discussion
GAO	General Accounting Office
IBEX	Integrated Budget and Expenditure System
ICT	Information Communication Technology
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Accounting and Auditing Standards
OAG	Office of Auditor General
OFAG	Office Federal of Auditor General
PCAOB	Public Companies Auditing Oversight Board
RAM	Regularity Audit Manual

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1. Introduction

The recognized practice of auditing has been in presence for a relatively short period. Widespread adoption of auditing methods led by the industrial revolution and the resulting explosion in growth of business activity (Byrnes, Al-Awadhi, Gullvist, Brown-Libur, Teeter, Warren & Vasarhelyi, 2018). The history of auditing goes back to the 1930s in Ethiopia (Beyashe, 2008). The notion of quality of audit is complex and tough to measure directly. The quality of audit defined by DeAngelo (1981) as the chance of an auditor discovering errors in the finances of client's and then bringing these errors to light in the audit report.

Many factors determine the truthfulness and reliability of the financial statements. These include the quality of audits conducted by auditors, the oversight of directors charged with governance, the enforcement of regulatory requirements, and the quality of financial statements prepared by management. Much work has been done in different countries to improve these factors. The ultimate aim is to provide users with a set of trusted and reliable financial information to make informed decisions. Quality of audit contributes to the overall quality of financial reporting (Jonas & Blanchet, 2000) and auditors are required in auditing standards to discuss the qualitative aspects of the entity's reporting practices with those charged with governance.

The importance of quality of audit have been highlighted in much-publicized audit failures such as the Enron collapse, along with the global financial crisis of 2007-8, and its role in keeping the accountability of the reporting entity. Assumed these circumstances, there is renewed awareness that the dependability of financial reporting by individual firms is vital to their economic well-being, and that a high quality of audit promotes overall public trust (Wallman, 1996; Monroe & Tan, 1997).

There have been various attempts to define and measure audit quality in the academic field. Researchers have related quality of audit to a range of proxies, including the detection rate of errors, the accuracy of going-concern opinions issued by auditors for distressed companies and the amount of audit work performed by the auditors. However, there is no agreement on the definition of quality of audit.

Audit quality is the market-assessed joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements. It is a function of the auditor's ability to detect material misstatements (technical capabilities) and reporting the errors (auditor independence) (DeAngelo, 1981).

Audit quality can be defined in terms of level of assurance. Since the purpose of an audit is to provide assurance on financial statements, audit quality is the chance that financial statements contain no material

misstatements. In fact, this definition uses the results of the audit, that is, reliability of audited financial statements to reflect audit quality. Based on the guidelines stated in ISQC 1, compliance with the standard is perceived as high audit quality (Palmrose, 1988).

Duff (2004) explicitly differentiates two main components of audit quality – technical quality and service quality. Service quality is defined in the services marketing literature in terms of what service is received and how this technical quality is provided (Berry, Zeithaml & Parasuraman, 1985). It is found that technical quality is characterized by status (reputation and capability), independence and knowledge (expertise and experience).

Apart from strengthening academic research and debate on ways of improving audit quality; and knowing the challenges linked with putting words around a specific definition of audit quality, the financial upheavals since the turn of the century have led to the introduction of new regulatory measures to promote audit quality, such as the Sarbanes–Oxley Act (2002) in the US, the PCAOB’s and the Economic Reform Program (Audit Reform and Corporate Disclosure) Act (2004) (CLERP 9) in Australia. A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality (2014) released by the International Auditing and Assurance Standards Board (IAASB) with the purpose of promoting an awareness of how best to achieve high audit quality on a systemic basis.

Researchers have analyzed determining factors in audit quality over the last few decades. Audit quality may be determined by several factors such as industry expertise, audit expertise, firm size, audit firm tenures, auditor’s independence, budget time, auditor’s responsiveness and others. Audit report opinions are affected by different factors which have been dealt with in a number of papers (Gosman, 1973; Keasey, Watson & Wyncarczyk, 1988; Ireland, 2003; González-Díaz, García & López, 2013; Krishnan, Krishnan & Stephens, 1996).

The most important factors in affecting quality of audit were audit team and firm’s experience with the client, industry expertise, responsiveness to client needs, and compliance with the accepted standards of competence, independence and due care (Carcello, Hermanson & McGrath, 1992). Likewise, a study by Francis in 2011 also identified competent audit professionals as a key input factor to audit quality.

One proposed solution to address the broad array of possible audit quality indicators is to not focus on a single indicator, but rather to require reporting of a number of different indicators so that the combination gives a multi-dimensional picture of audit quality. Thus, the present study tries to examine the quality of audit and its determinant factors in the case of ANRS OAG audit reports.

2. Need for the Study

Government audit quality has been in question for several years. Highly-publicized financial problems within large city governments in the mid-1970s brought widespread attention to the issue of government accountability. Concern was fueled by a General Accounting Office (GAO) study (GAO, 1986), which revealed that 34 percent of the 120 audits examined were substandard. Though government audit quality has enhanced since that time (GAO, 1989; Lowensohn & Reck, 2004), renewed concern of late has led to a new national project examining government audit quality. Thus, studies of government audit quality make ongoing contributions both to the practice community and to the academic literature.

In Ethiopia auditing industry is occupied by Office of the Auditor General (including OFAG), Audit Services Corporation (ASC) and private audit firms (Beyashe, 2008; World Bank, 2007). This study provides fresh empirical evidence which adds to the literature as it examines audit quality and factors affecting audit quality in the public (government) sector. This analysis is particularly relevant at the present time since the government faces hard decisions in the mismanagement and embezzlement of public resources. Such organizations must convince the general public that their policies and systems are the right ones to guarantee appropriate management of the resources provided by taxpayers for them to carry out the activities for which they were set up (Greenlee, Fischer, Gordon & Keating, 2007).

The number of professional accountants is very low compared to the size of the economy in Ethiopia. The Ethiopian Professional Association of Accountants and Auditors (EPAAA) has no legal backing and not member of the International Federation of Accountants (IFAC). The country has no quality assurance programs for Auditors. There are many researches undertaken on audit quality in other countries. But, there are only limited (industry specific) studies done related to audit quality in Ethiopia (Gelaneh, 2011; Afesha, 2014; Leilina, 2015; Kitata, 2016). In December 2014, under Proclamation Number 847/2014 and Council of Ministers Regulation 332/2014, the Accounting and Auditing Board of Ethiopia (AABE) is established and it is this board that has the authority to register and license public auditors.

This research answers the many calls made for more intensive research on the audit quality of developing countries and would have a contribution to the growing body of literature. In addition, the audit practices and problems in the region has been examined as a result of this study and thus, it may provide a basis for taking remedial measures and benefit policymakers in formulating policies and regulations which would focus on the needs of the country specifically in Amhara National Regional State.

With the initiative of Amhara Regional State OAG and the rational stated above, we have undertaken this study to answer the following research questions:

- To what extent the audit was conducted in compliance with the acceptable audit standards?
- How the auditees and auditors do perceive the quality of audit?
- What are the factors that affect the quality of audit?

3. Objective of the Study

The main objective of this study is to examine the quality of audit and factors affecting it in reference with regional government office audit reports.

The specific objectives of this study are:

- To examine the level of audit compliance to the acceptable audit standard;
- To analyze the perception of auditees and auditors on audit quality in Amhara Region; and
- To identify factors affecting the audit quality.

4. Research hypotheses

Audit quality is the probability that a material misstatement in the financial statements can be detected and reported by auditors. So, auditors' competency and independence are significant in determining the quality of audit. Both elements of audit quality, independence and competency, relate to personnel characteristics of auditors (DeAngelo, 1981). The audit companies need to attract high quality individuals with technical skills and interpersonal skills that are necessary to maintain or improve the audit quality (Duff, 2004). The findings of Behn et al., (1997) and Carcello et al., (1992) indicate that auditor's independence is an important determinant of audit quality. Accordingly, the following two hypotheses are proposed.

H₁: Auditor's technical competence positively significantly affects audit quality.

H₂: Auditors independence positively significantly affects audit quality.

In the work of Carcello et al., (1992) auditor's responsiveness to clients' needs significantly affects audit quality measured by the clients' audit satisfaction. Hence, the following hypothesis is proposed.

H₃: Auditor's responsiveness to clients' needs positively significantly affects audit quality.

Due professional care (auditees' perceptions of the extent to which audit team members exercised due professional care) is a variable used to operationalize the audit quality attribute identified by Carcello, Hermanson & McGrath (1992) and positive sign for this coefficient is anticipated in the quality model.

H₄: Due professional care positively significantly affects audit quality.

The auditor's report will probably be seen as having a positive influence on audit quality if it communicates the outcome of the audit with clarity. With an increase in tenure, the auditor's judgment improves to give an appropriate audit opinion (Carey & Simnett, 2006). Auditor's reports to users of audited financial statements, charged with governance, management and financial and prudential regulators are the key elements of audit quality. The emphasis on capital market perceptions of independence and audit quality is consistent with the Financial Accounting Standards Board's (FASB) conceptual framework for financial reporting and principles of auditor independence (Carmichael, 1999). The compliance of audit reporting with auditing standards can be used to assess the reliability of audit reporting (Krishnan & Schauer, 2000).

H₅: Audit reporting quality positively significantly affects audit quality.

The physical environment, like proper lightening and ventilation, can positively affect the health and mind of employee which can enhance the quality of work (Ceylan & Dull, 2008). Tsai, Horng, Liu & Hu (2015) found a positive relationship between environmental factors and desired outcomes. Thus, the next hypothesis is proposed.

H₆: Physical work environment positively significantly affects audit quality.

5. Literature Review

5.1 Theoretical Review

Governments differ from private-sector entities in a number of ways, including the nature of entity operations and their accounting and financial reporting. Government units are distinguished from commercial organizations, for example, by the absence of a profit motive, their collective ownership by constituents who do not share proportionately in government-provided goods or services, and the political processes affecting decision-making (Freeman, Craig, & Shoulders, 2003). The technical requirements of government auditing are sufficiently specialized that private-sector audit quality research findings may not generalize to the government audit sector.

Government audit quality has been a significant issue since the 1980s, when a Government Accountability Office (GAO) study (GAO, 1986) revealed that a third of audits examined were substandard. In the aftermath of this revelation, the accounting profession took extensive measures to improve government audit quality (Hardiman et al., 1987). Nonetheless, the quality of government audits is again under scrutiny (Everson, 2002; Broadus, 2004) and thus remains an important research topic.

Audit quality is an important concept in both public and private sector, but there is no signal model to define and operationalize audit quality. According to International Federation of Accountants (IFAC), audit is an autonomous inspection of an entity where the auditor delivers unbiased results about appropriation of funds by underlying organization. If the auditor maintains integrity and transparency in disclosure of audit findings, the purpose of auditing will be fulfilled. Audit quality is directly affected by the auditor's integrity itself. The competency, satisfaction and integrity determine the level of audit quality (DeAngelo, 1981). Audit is a mode of governance of an entity which took importance after corruption scandals in both the government and private sector. The governance of government and the private sector can be improved if the professional and personal backgrounds of auditors are strong. There is a variety of factors which affect the audit quality.

Duncan (1997) defined organizational environment as a multidimensional concept that is difficult to operationalize in different work settings. Work environment plays an important role in building professionalism and mental freedom to conduct audit effectively. Top management support is one of the most critical success factors for any organization. The top management support is defined as devoting time to review plans, responsibilities of staff, follow up the results and resolve management related issues (Young & Jordan, 2008). If management supports auditors, they can maintain credibility of audit reports. Young and Poon (2013) used fuzzy set analysis to conclude that top management support is 50% more important than other success factors but too much involvement of top management can be dysfunctional (Collins & Bicknell, 1997; Keil, 1995). Top management support is positively correlated with performance of employees (Viswesvaran, Deshpande & Joseph, 1998; Alshbiel & AL-Zeaud, 2012). Zwikael (2008) found different levels in Jordan, Newzeland & Israil, at which top management involved in audit procedure. It can be concluded that top management support varies from country to country.

The top management support, freedom of work and physical environment, e.g., proper lightening and ventilation can positively affect the health and mind of employee which can enhance the quality of work (Ceylan & Dull, 2008). Besides physical environment, social environment, e.g. equal treatment in organization, willingness of sharing knowledge with each other, participation and cooperation among employees have a direct effect on the employee performance (Manzoor, Ullah, Hussain & Ahmad, 2011). Tsai, Horng, Liu and Hu (2015) found a positive relationship between environmental factors and desired outcomes.

A study of 28 accounting firms in Indonesia revealed that independence, experience and level of accountability had significant effect on quality of audit (Suyono, 2012). The extent of promotion, pay, job security, fairness, relationship with coworkers and supervisors are significant elements of the work

environment (Saeed, Lodhi, Iqbal, Nayab, Mussawar & Yaseen, 2014). Muda, Rafiki, Harahap (2014) developed a model in which job stress, motivation and extent of communication were independent variables but the level of communication among employees was a strong determinant of perceived output. Ram, Bhargavi, & Prabhakar (2011) empirically investigated that the work environment played a significant role in enhancing employee satisfaction and engagement. Another study revealed that strong leadership qualities and acceptance of change in work environment positively affected the employee performance (Imran, Fatima, Zaheer, Yousaf & Batool, 2012).

Al-khadash, Al-Nawas and Ramadan (2013) studied the determinants of audit quality in Jordan and found that the salary of auditor, independence, competency and qualification of auditor and the reputation of auditor significantly affected the audit quality. Adeyemi, Okpala and Dabor (2012) conducted research in Nigeria in which educational level of auditors, length of tenure and extent of auditor's participation in advising auditee affected the audit quality. The importance of independence of auditors, objectivity and management support in improving the audit quality is raised Baharudin et al (2014). In addition to these factors, health, family background, mindsets, values, family support and personal focus of employee affect the performance of employees (Mathur & Gupta, 2012). Mehmood, Irum, Ahmad & Sultana (2012) statistically proved that salary, autonomy, chances of promotion affected the employee performance more than the effect of physical working conditions in Pakistan. In almost every organizational setting, working conditions, pay, promotion, job security, trainings and employee empowerment are primary concerns of every employee either in public or private sector (Masood, Ain, Aslam & Rizwan, 2014; Parvin & Kabir, 2011; Neog & Barua, 2014).

A case study analysis of audit irregularities in South Africa indicated that auditor's ethics to report audit findings, active whistle blowing, and financial influence of auditee, adequate documentation and process, awareness of audit importance, personal commitment and sense of responsibility affected the audit quality (Maroun, 2015). Lowensohn, Johnson, Elder and Davies (2007) proved that the level of auditor's specialization in government auditing significantly affected the audit quality. Sisodia and Das (2013) proved that job autonomy has moderating effect on employee performance.

Besides these quantitative approaches, qualitative research work has been conducted on government auditors of Pakistan in which massive corruption, limited time available for audit, lack of human, financial, communicational and technological resources, lack of trainings for auditors, use of manual auditing system, lack of autonomy on job, unacceptable behavior of audited bodies and lack of top management support were the key antecedents behind low audit quality (Masood & Lodhi, 2015). Pakistan is not a single country in which audit quality is low, same results have been found in developed and developing

countries too. In developed countries like Australia and UK, lack of resources is a big antecedent behind poor audit quality of national audit offices (Nosworthy, 1999; Hedger & Blick, 2008). Lack of training in national audit officers is another variable which affect audit quality in west Australian countries (Chong, Dolley, Houghton & Monroe, 2001). Like other countries, national audit offices of Estonia deprives of resources and top level commitment without political influences (Etverk, 2002; Zyl, Ramkumar & Ranzio, 2009). The national audit offices of Israel, promotional and career development opportunities and top management support were found to have significant effect on audit quality (Cohen & Sayag, 2010). Mihret & Yismaw (2007) regarded management support an effective tool to enhance audit quality in Ethiopia. So, the current phenomenon is also present in government structure of every country.

5.2 Empirical Review

Accounting researchers have employed univariate measures of respondents' perceptions as the dependent variable in previous studies related to auditor independence (e.g., Swanger & Chewning, 2001; Pany and Reckers, 1988; Hodge, 2006), accounting quality (Imhoff, 1988), and auditee satisfaction (Behn et al., 1997). Watkins, Hillison & Morecroft (2004) acknowledge that audit quality is essentially unobservable and identify facets of audit quality which include users' perceptions about auditor monitoring strength as well as the extent to which audited financial statements report the __true__ economic condition of the client. According to Arrunada (2000) that the dimensions of audit quality is: 1) Technical competence is defined as the auditor's ability to detect errors or shortcomings in the financial statement being checked and 2) Independence on the other hand is taken to be the willingness of the auditor to reflect in the audit report all problems and defects he/she has detected in the financial statement. While our dependent variable measures perceptions, it is important to note that it captures perceived quality after an audit has taken place. Thus, it moves beyond simple audit firm reputation and includes client perception of auditor monitoring.

DeAngelo (1981) defines audit quality as the probability that an auditor will both discover and report an error in a client's accounting system. In the public sector, GAO (1986) defines audit quality as __compliance with professional standards and contractual terms__ for the audit under consideration. Researchers have used proxies for audit quality, such as premium fees (Copley, 1991), auditors' investment in firm reputation (Beatty, 1989), auditor size (Mansi, Maxwell & Miller, 2004), or extent of litigation (Palmrose, 1988). Others utilize a more direct means of studying audit quality through analysis of regulatory agencies' quality reviews; such work has been done by Deis & Giroux (1992), Keefe, King & Gaver (1994) and Lowensohn & Reck (2004). A third approach has been to identify certain audit-related

attributes associated with perceived audit quality (Carcello et al., 1992; Schroeder, Solomon & Vickrey, 1986). We build upon the third approach in this study.

In Guidelines on Audit Quality (2004), characteristics of audit quality include among others: significance, reliability, objectivity, scope, timeliness, clarity, efficiency and effectiveness. The Institute of Chartered Accountants in Australia (2009) stated that the five driver of audit quality is the culture within an audit firm, the skills and personal qualities of audit partners and staff, the effectiveness of the audit process, and factors outside of the control of auditors. Audit quality is determined by prior experience in auditing, industry expertise, responsive to the client company's needs, conduct of audit field work in an appropriate manner, commitment to quality, exercises due care throughout the engagement, high ethical standards, technical competence in approved accounting standards and auditing standards, independence, interact effectively with the audit committee, executives [partner/manager] actively involved in the engagement, and skeptical attitude throughout the audit engagement (Guidelines on Audit Quality, 2004). The measurement of the dependent and independent variables is stated in Table 1. Accordingly, we have adapted the Perceived Audit Quality developed by Masood & Afzal (2016), Lowensohn et al. (2007) and Guidelines on Audit Quality (2004) since these studies are more relevant to the auditees in the government sector audits.

The above literature review suggested different factors which were presented in theoretical model. There is a need to address the significance of those factors which affect audit quality in the Office of the Auditor General. The current research work is aimed at examining those important variables quantitatively and qualitatively, which are affecting audit quality in ANRS government office audit reports.

5.3 Conceptual Framework

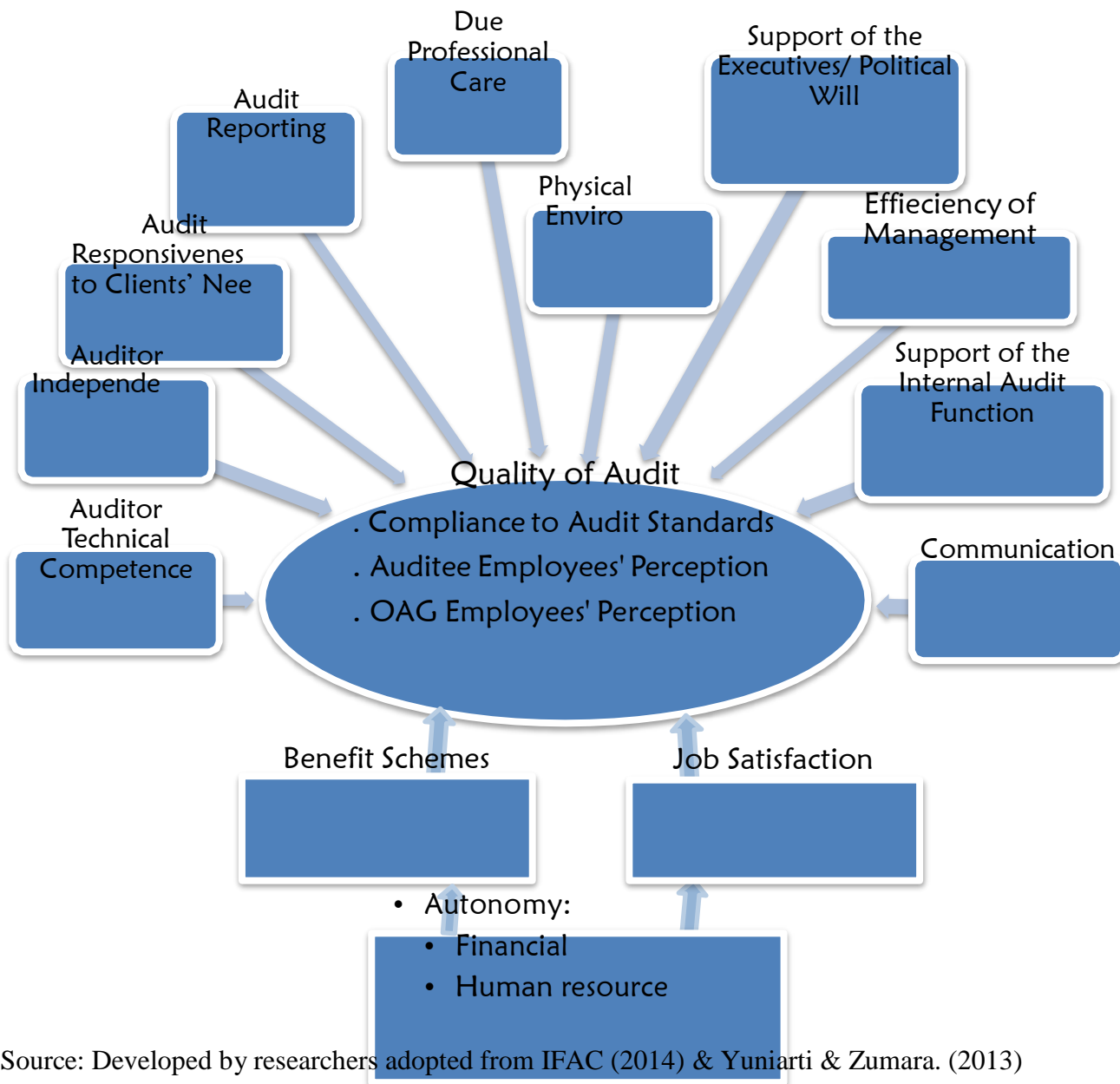
For the measurement of quality of audit, the IAASB has suggested that a differentiation be made between intrinsic audit quality and perceived audit quality. Intrinsic audit quality is factual, or actual, audit quality that can be measured, such as choice of audit methodology and audit process. Perceived audit quality is interlinked with the perceptions of audit quality held by stakeholders (Le Vourc'h & Morand, 2011). A quality audit is likely to have been achieved by an engagement team that exhibited input factors, applied a rigorous audit process and quality control procedures, provided useful and timely reports and interacted appropriately with relevant stakeholders (IFAC, 2014).

Various studies were conducted to measure the quality of audit through the perceptions of various groups who were both a part of the audit service and interested in the audit results (Mock & Samet (1982), Schroeder, Solomon & Vickrey (1986), Sutton & Lampe (1991) and Carcello, Hermanson & McGrath

(1992)). Behn et al. (1997) studied the audit quality factors which affect the satisfaction of the customer business.

The conceptual framework on this research is how the point of responsive to the audited entity's needs, technical competence in approved accounting standards and auditing, independence, audit reporting quality, exercised due care throughout the engagement, and physical work environment affects audit quality measured through the audit client satisfaction. As a result, the following conceptual framework is drawn for the quantitative research study.

Figure 1: Conceptual Framework of the study



Source: Developed by researchers adopted from IFAC (2014) & Yuniarti & Zumara. (2013)

6. Research Methodology

6.1 Research Approach and Design

The purpose of this study is to examine the quality of audit and the factors that affect audit quality. The basic research question raised in this study is the level of quality of audit performed by OAG (Amhara Regional State) and the related factors that affect it. To address this, researchers understand the perception and occurrence of facts from the observations to draw principles. Simultaneously theoretical hypotheses are tested to check the causal effect of different factors on the quality of audit. With a mixed research both inductive and deductive approach were applied concurrently in this study.

To gain a greater understanding of the chain of evidence that links auditors' attribute and quality of audit a **convergent** explanatory study, which involved the collection and analysis of quantitative data followed by the collection and analysis of qualitative data was conducted. Thus, the general plan of this research to answer the research questions is based on descriptive and explanatory research design that helps to gauge audit quality and the respective causal factors. **Convergent** research design is the final outcome of these two research designs.

6.2 Study Population and Sampling Procedures

The theoretical population for this research is the OAG and government offices audited by OAG. And then the sample units are selected from employees of the OAG, audit files reported by OAG and employees of the government offices audited by OAG. Based on this purposive sampling is applied to select organizations from the list of auditees. Purposively we have selected audit files for document analysis and FGD participants. The study applies stratified sampling technique to select samples of the study under consideration for the quantitative research analysis from employees of both OAG and auditees.

For this survey study the employees of auditees prioritized for auditing are selected randomly. The number of respondents in each office is determined to be three (finance directors and/or officers, internal audit team leaders and managers). According to the information obtained from the OAG, the total number of government offices that are under the priority list for auditing are 442. These offices have been stratified into four strata based on government offices hierarchical arrangement. Thus, the total number of the target population is 1,326.

For the purpose of the study sample size is determined by using Yamane's (1967) formula.

$$n = N / [1 + N (e)^2]$$

Where, **n** is sample size, **N** is population size and **e** is the level of precision.

The level of precision, sometimes called sampling error, is the range in which the true value of the population is estimated to be. When estimating a population parameter by using a sample statistic, the precision level is the desired size of the estimating interval. This range is often expressed in percentage points (Singh & Masuku, 2014). By considering sampling error to be 5% the sample size is:

$$n = 1326/[1 + 1326 (0.05)^2] = \underline{307}$$

Table 1: Proportionate stratified random sampling method of allocating samples

Strata	No of Offices	No of Target Population	No of Sample	No of Response
Economic offices	27	81	19	9
Social Offices	129	387	90	41
Administrative Service Offices including Zonal Police Divisions	64	192	44	26
General Service Offices	43	129	30	12
Single Finance Support Core-Process	179	537	124	59
Total	442	1,326	307	147

After data cleaning the total number of sample units applied for data analysis in the survey design were 147 from the auditee offices. Accordingly, the response rate for this survey design study is almost 47.9%. Researchers view 100 subjects as a minimum sample size, like Bailey (2008). In addition, the mean response rate was 43%, ranging from 10% in a Business and Society Review survey (1975) to 96% in a study by McNichols & Zimmer (1985), with a median of 40%. Babbie (1986) recommended a response rate of at least 50% is acceptable for analysis and reporting. From our research study result's response rate perspective, the sampling strategy (purposive sampling mixed with stratified sampling) that we have applied and previous research works cited above lead us to generalize that the sample size is adequate. Lincoln, Pressley & Little (1982) conclusion is also in-line with this idea since the response rate is more than 40%.

On the other hand, 110 questionnaires were distributed to OAG employees and 80 of this was collected. The responses rate for this figure is 73.4% after running data cleaning.

For the qualitative part of the study which employs purposive sampling techniques, the sample size comprised of three focus group discussions held at 2 centers in the region. In addition, data was collected through document analysis. The proposed number of audit files to be considered in this study was 20. But, we have examined various types of audit files and found that there is no variation in the data we have

collected. Thus, for document analysis part of the study, we have analyzed only 10 audit files as a result of data saturation in order to determine the quality of audit as per the AFROSAI-E standard.

6.3 Data Type, Source and Instrument

The study employed both primary and secondary data types. The data was collected from primary data source through focused-group discussion and questionnaire and from secondary data source through document analysis.

The questionnaire is adapted from the work of Masood & Afzal (2016), Lowensohn et al. (2007) and Guidelines on Audit Quality (2004). The questionnaire was developed based on the Likert-scale method so that the responses can be analyzed statistically. The questionnaire was tested for both validity and reliability. In addition to adapting standardized question from previous research works content validity was checked by practitioners and respondents.

When we came to the reliability test of the instrument a minimum of 0.735 and a maximum of 0.928 Cronbach’s Alpha value is depicted in the table below. The reliability test measures the internal consistency of a variable (concept) to be measured. The result of reliability test is depicted in the following table.

Table 2: Reliability Test of the Scale

Reliability Statistics

Variables	Cronbach’s Alpha	Cronbach’s Alpha based on Standardized Items	No of Items
Total of Perceived Quality	.777	.781	6
Total of Auditor technical Competence	.888	.889	6
Total of Auditor independence	.735	.728	7
Audit responsiveness to clients’ needs	.783	.784	4
Total of Audit Reporting	.927	.929	10
Total of Due Professional Care	.928	.928	8
Total of Physical Work Environment	.857	.863	3
Total of variables	.876	.886	6

Source: SPSS Output, from 2019 Survey Result

Using secondary data, we have collected data with reference to the check-list of OAG manuals and international accounting and auditing standards (International Standards of the Supreme Audit Institution - ISSAI).

6.4 Measurement of Variables and the Model

The dependent variable is Perceived Audit Quality. Given the nature of the study, the judgment of individuals in a position to observe the conduct of their governments' audits (i.e., government finance officers) provides a reasonable surrogate for audit quality.

Independent variables previously used by Carcello, Hermanson & McGrath (1992), Behn et al. (1997), Masood & Afzal (2016) and other variables are summarized as follows.

Table 3: Summary and Measurement of Variables

Variables	Concept Measured	Author
Dependent Variable		
Perceived Audit Quality (TPAQ)	Perceived quality of audit measured on a 5-point numerical scale	Masood & Afzal (2016); Lowensohn et al. (2007)
Independent Variables		
Auditor technical Competence (TATC)	The audit team had the necessary technical competence in government accounting and auditing measured on a 5-point numerical scale	Lowensohn et al. (2007)
Total of Auditor Independence (TAI)	The audit team-maintained independence in appearance and in fact measured on a 5-point numerical scale	Lowensohn et al. (2007)
Total of Audit responsiveness to clients' needs (TARtoC)	Audit responsiveness to clients' needs measured on a 5-point numerical scale	Lowensohn et al. (2007)
Total of Audit Reporting (TARQ)	Audit Reporting measured on a 5-point numerical scale	Lowensohn et al. (2007)
Total of Due Professional Care (TDPC)	The audit team exercised due professional care throughout the conduct of the audit engagement measured on a 5-point numerical scale	Lowensohn et al. (2007)
Total of Physical Work Environment (TPWE)	3 item Likert-Scale physical work environment index	Masood & Afzal (2016)

The audit quality model to be employed includes relevant audit attribute identified by Lowensohn et al. (2007) and Carcello, Hermanson and McGrath (1992) with the addition of other variables. The model appears as follows:

$$TPAQ = b_0 + b_1TATC + b_2TAI + b_3ARtoC + b_4TARQ + b_5TDPC + b_6TPWE + \varepsilon$$

This study applies linear regression which is appropriate for attitudinal responses measured on a continuous scale.

Table 4: Summary of the research methods with respect to each objective

Research Methods	Objective 1	Objective 2	Objective 3
Target Population	Audit team member(s); OAG director; Audit File	OAG employees, Client manager, Finance Directors and Internal Audit Team Leader	Client manager, Finance Directors and Internal Audit Team Leader
Sampling Techniques	Purposive	Stratified Purposive	Stratified
Sample Size	- 3 FGD - 10 Audit File	- Client manager, Finance Directors and Internal Audit Team Leader = 147 - OAG employees= 80 - 3 FGD	- Mgt, Officers and Accountants = 147 and 80
Source of Data	- Audit File - FGD participants	- Auditee Employees - OAG Employees - FGD participants	- Auditee Employees - Auditor employees
Method of Data Collection	- Document Analysis - FGD	- Survey Questionnaire - FGD	- Survey Questionnaire
Method of Data Analysis	- Narration - Descriptive statistics	- Narration - Descriptive statistics	- Descriptive statistics - Inferential Statistics

6.5 Data Analysis

This study encompasses a number of statistical tools and procedures that support to examine the research objectives. The techniques applied in this research include reliability and validity test, frequency analysis, descriptive statistics, correlation matrix, linear regression, and narration. To examine the quality of audit in the organization we managed open-ended questions and group discussions analyzed through narration. Based on AFROSAI-E standards a document analysis of selected audit reports was undertaken.

7. Presentation and Discussion of Results

7.1 Audit Compliance to Audit Standard

In order to collect the data from secondary sources (audit files) the guidelines issued by INTOSAI was selected for this research study. This standard was selected for two reasons. One, INTOSAI is an independent non-governmental organization with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations which operates as an umbrella organization for the external government audit community. So, it is a worldwide affiliation of governmental entities that we are interesting for at Amhara Regional State.

Second, the government of Ethiopia (Office of Federal Auditor General and Office of Regional Auditor General) adopted the standards of INTOSAI, specifically AFROSAI at regional level. Here, it provides an opportunity for researchers to examine whether the Office of Auditor General is following the AFROSAI-E standards or not.

Accordingly, the following sub-sections discuss the findings of the study from document analysis with reference to the data collected from audit files and through FGD based on the guidelines of audit standard. In addition to FGD, the questionnaire for employees of OAG is cross-referenced to the document analysis when appropriate. The discussion is presented in two sub-sections at the office/institutional and individual audit level separately.

A. Audit Compliance at Institutional Level for OAG

Independence and Legal Framework:

The existence of OAG and the appointment of the OAG Head is provided for in the Constitution (of ANRS). It is expected that all public bodies and related institutions shall be audited by OAG. Accordingly, the head of OAG is nominated by the executive & approved by the council. But the constitution does not provide legal immunity for the head of OAG and -Members for collegial bodies in the normal discharge of their duties. Security of tenure and legal immunity are the core principles issued in the XIX Congress of INTOSAI Mexico Declaration on OAG Independence as being essential requirement for proper public-sector auditing.

Proclamation No 186/2003, Article 9:1-4, details that OAG to prepare and submit the annual budget directly to the council. In practice it is approved through the treasury department (Bureau of Finance and Economic Cooperation - BOFEC) on which **financial independence** is in question here. In the other respect, OAG is not entitled to use and re-allocate the funds allotted to them under a separate budget heading in ways that they consider to be appropriate (e.g. for remuneration and establishment of new posts

it has to be permitted by BOFEC). In addition, OAG is not free to determine the nature of its organizational structure and functional process without outside interference subject to be approved by civil service commission. The new proclamation, Proclamation No. 267/2019, allows to effect the payment of auditors' salary and allowances by preparing the structure and salary scale of the office and getting approved same by presenting to the regional council. But the regulation has not yet developed by OAG and not yet approved by the council. The aforementioned decisions can reduce the risk of the interference of the Executives on OAG.

With regard to the mandate of OAG foreign agencies and enterprises with which the state has joint venture agreements were not audited because of mandate restriction. But the new proclamation, Proclamation No. 267/2019, allows doing so. OAG may audit and cause to be audited concerning the regional public development organizations and bodies those have public and government interests when orders are presented by justice bodies and other concerning institutions to perform the audit. There is no a strong political will to maintain OAG independence and therefore a full support for the auditor general in the exercising of his/her mandate. There are entities which are not audited by OAG like public clinics, public school and municipalities but not due to legal restriction. OAG carry out accounting and auditing license, training and counseling, advisory service on development of rules, regulations other than external audits work.

Organization and Management:

With reference to the organization and management of OAG the top management is expected to set tools as plans and how they should be used efficiently the way a manager should behave as a leader. From open-ended questions the respondents pointed out that the head of OAG does not set the appropriate tone and direction for the organization. The head of OAG does not continuously inspire staff to comply with the approved standards and procedures and to make their best efforts to deliver quality services and products. OAG does not assign appropriate staff with the necessary capabilities, competence and time to perform audits in accordance with professional standards and applicable regulatory requirements and enable the issuance of reports by OAG that are appropriate in the circumstances. It is assigned by OAG based on the available staffs which needs to be compared with international practice or JEG requirements.

OAG does not have sufficient resources to carry out both the planned audit activities and the development projects in the strategic and the annual work plans because of budget limitation and structural problem. Asset management and archiving system functions are not computerized in OAG. OAG does not have Broadband internet access. OAG's accounts are not regularly audited by external bodies and attention is not given by the council for this at all.

Human Resources:

For the management and development of managers and staff there should be clear human resource management standards and policies that requirement is an important element of the audit process. The staff does not have adequate knowledge and skills to execute OAG mandate. Retention of experienced and skilled staff is a major problem for OAG. There is no proof of success measurement against the training plan/part of the annual working plan. Achievement is measured based on the number of trainings provided but not to its successfulness. OAG does not ensure that the auditor's knowledge and skills gained via different training program are being successfully used in the audit. OAG has some legal provisions for its independence, but this provision is not adequate and it is dependent on the executive for its human resource.

Audit Standards and Methodology:

There is no policy on regular audit document retention in OAG even though forensic (special) audit documents are required to be retained as per the rules of justice for 10 and more years. There is a lack of man power and transportation service to undertake adequate proof of timeous review throughout the audits.

OAG does not establish policies and procedures to provide it with reasonable assurance that appropriate consultation takes place on difficult or contentious items within OAG with external experts and with the auditee even though OAG uses experts during audit. In addition to this, OAG does not establish policies and procedures to provide it with reasonable assurance that sufficient resources are available to enable appropriate consultation to take place, the nature and scope of such consultations are documented and conclusions from consultations are documented and implemented.

OAG has not decided on criteria to determine the audits which should be subjected to a pre-issue quality control review i.e. no quality control review. In differences of opinion, OAG does not establish policies and procedures for dealing with and resolving differences of opinion within the audit team, with those consulted and, where applicable, between the audit team leader and /or audit director and the audit quality control reviewer. Because of lack of adequate resource all entities of the regional government are not audited annually covering revenue, expenditure and assets/liabilities. As a solution, outsourcing uncovered parts of the regional government resource is the best experience by establishing Audit Service Corporation.

Communication and Stakeholder Management:

The head OAG does not have regular meetings or hearings with BOFEC and other representatives of important stakeholders. The executives do not fully implement the Public Accounts Committee's or its equivalent recommendations even though there is Audit Findings Task Force (a committee of Head of State, Speaker of the regional Council, prosecutor, Anti-corruption, OAG and BOFEC).

With regard to the audited entities the extent of the implementation of the audit recommendations is to a little extent or not at all. According to customer satisfaction survey by OAG the role of OAG is appreciated by the audited entities to a large extent. The audited entity is given a reasonable opportunity to respond to the management letter and exit conference instead of the draft audit reports. The extent of response from audited entities to OAG is to a large extent and all audited entity responses is fairly considered before finalizing the audit report. In line with this the extent of the acceptance of the audit recommendations is to a large extent. But the extent of the implementation of the audit recommendations is to a little extent.

In publicizing the audit findings to the media OAG makes the audit products public through its website, newspapers, and circulation of copies to stakeholders. After the audit report tabled to the council OAG have the right to go to the media with its findings. With respect to the audit sector there is no arrangement for secondments between staff in OAG and in the private sector auditing firms.

Monitoring and Evaluation of OAG:

OAG needs to have well developed ongoing system of monitoring and evaluation system to ensure its efficiency and effectiveness in discharge of its mandate and must be aware and well acquainted with its result. OAG tries to objectively measure its results using the Balanced Score Card (BSC). OAG does not apply standardized performance measurement to assure whether there are acceptable quality performance measures or not. OAG does not have performance measures to assess the quality of audit products even though customer satisfaction is measured at the time of exit conference. In addition, it is hard to meet its deadlines for submission and delivery of its audit products for the individual audited entities. But, timely report is presented for the council. Even OAG does not have performance measure to assess the impact of its products.

Quality assurance procedure is an important element of performance measures of audit firms. But OAG does not have an internal review function and effective Quality Assurance (QA) processes for the audit work. OAG does not have procedures to handle complaints and allegations concerning failures to comply with professional standards and regulatory requirements of non-compliance with OAG's system of quality control.

B. Individual Regularity Audit in OAG

In reviewing **the regularity audit** conducted by OAG similar to the institutional evaluation the AFROSI– E format is used as standard to assess the quality of audit in the office from files. For this purpose, ten files were used to gauge the audit quality in the office. Accordingly, the assessment of audit quality as per the AFROSI–E format is described in the following three sub-topics.

Pre-Engagement Activities:

In line with the time budget of the audit engagement the actual hour is not filled and compared properly in almost all audit files that we have observed. There is also irregularity in the signature of the supervisor in the time budget. In all audit files that we have examined there is no time allotted for the supervisor in the pre-engagement activities. To add some, pre-determined time is allocated by OAG for the time budget. Actual hour is recorded per audit partner but time is not budgeted for each partner. In addition, explanation for time variance after the completion of the audit work is not disclosed. The time budget of the AFROSI –E format is also modified when we compare it from the standard.

As a tradition, there is an **entrance conference** (minute) conducted by OAG and the auditee which is expected to replace the **engagement letter of AFROSI –E format**. But, it doesn't explain the real intention of the engagement letter. For example, objectives of the audit are stated, but responsibilities of parties, activities and target dates for each activity are not properly revealed. The entrance conference is not signed or reviewed by appropriate responsible body.

Audit is a technically complex area which requires trained staff to deliver effectively. The most important resource of OAG is its workforce. As included in the **competency matrix** most of the audit files stated the required competency as per the civil service requirements similar to other budgetary offices. Even in this regard the workforce doesn't have the required degree of technical training and proficiency. Training requirement is not filled in this competency matrix which makes it difficult to easily identify the training gaps. In some of this format IBEX and Peachtree Softwares are indicated as the training gaps they have identified. Still there are appreciable works that the audit team members who have filled standard format in the appropriate manner. But, the responsibility of audit team is not incorporated in some of the audit files.

At beginning and ending of the audit the code of ethics is declared in a group only which does not comply with the AFROSI –E format. The audit supervisor also does not declare it in the group as well as independently. Ethical elements are stated in general format but would be better if specified in detail as per the format can clearly indicate the responsibility of each audit member and the group. A good

experience observed in the procedure is that the person responsible for the audit report signed on the code of ethics compliance.

In the responsibilities for audit review the team agreement is prepared but pre-engagement quality control checklist is not checked and signed by the appropriate level. Supervision reports are not attached in the working paper and we can't identify what they have reviewed and recommended at each stages of the audit. There is irregularity in assigning time and responsibility of the audit team for all activities stated in the team agreement.

Strategic Planning:

In assessing materiality balances of the auditees' organization, the audit team identified via the lead schedule and cross referenced it to the final audited financial statement. But,. A materiality level doesn't have a predetermined balance. Prior year's issues have been identified as risk materiality level *is almost all reported as medium for different offices* which raises whether it has been properly assessed or not. Even checklists are not used for assessing materiality or it is not cross referenced with checklists areas in the audit files.

Qualitative materiality factors are not appropriately identified and documented. For example, qualitative factors are disclosed in general terms. It didn't disclose the effect of each qualitative factor on risk materiality levels. In addition, the statements used for each materiality planning checklist is the same in different audit files. So, due care and professional skepticism is in question here.

Conclusion on overall functioning and specific work of internal audit is not stated and the reliance of auditors on internal audit work is not depicted in each audit files that we have included for this study purpose. The work performed by internal audit was not evaluated and tested to confirm its adequacy. The risk of material misstatements on a financial statement level was not documented.

In performing the preliminary analytical procedures there is no preliminary analysis done by the audit teams. Only they have performed is the budget variance analysis. This makes it difficult to properly cross reference to material risk assessment.

OAG applies customized IT internal control (IC) checklist which does not comply with RAM IT IC checklist. Even, the assessment is not reviewed by IT audit professionals. The audit strategy is expected to be approved, prepared, communicated and discussed to the auditee. But, it was not approved by the appropriate personnel even though there is evidence that indicates it was prepared, discussed and communicated to the auditee.

Detailed Planning and Fieldwork at Components Level:

Referring to ISSAI 1300 on Planning and Audit of Financial Statements the audit team should develop a more detailed audit plan based on the overall audit strategy that helps to identify the nature, timing and extent of specific audit procedures the risk assessment activities in the detailed audit planning.

Accordingly, the auditor's understanding of the business processes through system descriptions for all material audit components is a copy paste activity and similar phrases are used across different organization's audit files and audit teams. On the other hand, there is no risk or control weaknesses identified on each material audit components via the system description in some of the audit files. For the inclusion of controls in the system description prescribed by the relevant regulations, instructions and manuals most of the audit team included the prescribed rules and regulations even though some of the audit teams didn't prescribe it appropriately. But, they didn't include relevant rules and regulation for specific components. Even some of the stated existing rules included in the file are outdated and they didn't refer the updated rules and regulations.

The reliance on key controls was not clearly documented to support the planned audit assurance to be obtained in which referencing documents was not included for each assertion even though controls are identified for each assertion. Walk through control, test of control, reliance on control and system description are not properly and diligently filled.

The AFROSAI-E format requires reviewing and approving the planning working papers prior to commencement of the audit testing. In practice it was not reviewed and approved. The test of control checklists are filled in the working paper but there is no evidence attached to it in order to verify the test of IC for each component that needs field visits. Test of control should be performed based on RAM format that clearly indicates the details of each economic event. In some of the audit files unrelated test of control was found for different accounts. The test of control was not approved by the supervisor.

The samples selected for testing reasonable and representative of the population is based on formula developed by OAG. If the audit approach had been changed during the audit the reason for the change was not documented. In the substantive procedure the audit program was not prepared for each component. Based on the sample size determination formula the sampling procedure does not consider qualitative factors.

The direction of OAG requires the documentation of most of the components of the working paper to be held via a soft copy. But, the soft copies are not properly documented through the responsible body - no central responsible body to collect it. It is held by individual auditors and will not be a property of OAG. Upon retirement of auditors in the office, even after a year, it is difficult to access the file when it is required. One of the sources of complains is the documentation system of OAG in order to take further

procedures using the audit outputs. In each step of the audit procedures there is no quality control checklist to verify its cross-reference to the working paper with evidence to indicate that the work was completed.

Conclusion and Reporting:

In this step of the audit standard it is expected to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and express clearly that opinion through a written report that also describes the basis for that opinion.

So, according to the AFROSAI-E standard a properly tailored management representation letter was not obtained which was signed on a date close to (but prior to) the signing of the audit report. This may result the problem of accountability on management of the entity and creates problem of awareness on the auditing process and its functions. The auditees accounting system leads problem on improvement of audit finding throughout the years.

In performing the final analytical review only comparison on budget (expenditure) was done even though it didn't follow the checklist provided by RAM. The self-developed checklists omitted some elements of the financial statements and may help auditors to identify true risk area of the entity if appropriately followed.

There is no evidence of materiality level restatement included in the audited file in order to re-state the planning materiality level if it was appropriate. The standard requires preparing management letter for discussion with the management of the auditee. There is no management letter applied in the office in general. The exit conference is expected to replace the management letter even though the contents of exit conference and management letter are significantly different. Different issues are resolved through the exit conference even though the draft management letter is expected to file evidences for resolving different issues raised between the two parties. The adequacy of communication with the auditee can be evaluated referring the engagement letter or entrance conference, discussion on overall audit strategy, audit query and exit conferences. The standard needs OAG to have adequate communication throughout the audit process and compile it in the final management letter with this regard.

The audit reported finding is supported by the finding summary sheet and audit query. In the audit report most of the audit report standards are followed except some reservations. But, the budgeted vs actual hours were not properly filled in most of the audit files. We are not able to compare it. Budgeted time is not assigned for the audit manager the audit manager did not sign on the budgeted Vs actual time sheet.

In the working papers the supervisors or audit managers are not properly signing in the attached files. This implies that there is no or poor supervision and review process in the office. The working papers does not

indicate the meanings of audit tick marks and it does not describe the purpose of photocopied or scanned attachments incorporated in the working paper. Working papers performed in soft copies for each entity doesn't exist for 3rd party verification.

As it is well known auditing is a process by its nature. This procedure assures the quality of audit outcome throughout the engagement if it was performed properly. From the above results we can understand that there are a number of loopholes in following the AFROSAI-E standard for a number of reasons. OAG tried to customize this standard to conduct their audit activities. According to RAM of AFROSAI-E standard some of the components were overlooked because of such customization. As a result, some of the important components of the standard were not included in the customized RAM that can improve the quality of audit if these standards are incorporated.

When we come to the customized AFROSAI-E standards adapted by the office most of the audit teams did not properly follow the RAM manual to their best. The quality of audit can be kept to the best of its level if each step of the audit procedures starting from pre-engagement activities to the issuance of audit opinions and documentation are completed based on the requirements of the standard. As we have observed from the above paragraphs that there are a number of inconsistencies and drawbacks in following the AFROSAI-E and the customized RAM standards. This implies that the quality of audit was compromised by auditors through one or more of the irregularities in the audit engagement. For example, in the audit files the audit manager didn't properly fill that the form requires the checkmark and signature of the supervisor. There are incomplete forms that require such activity. This was also confirmed by the group discussion with the audit managers. We have understood that the strength of supervision in the office depends upon the efficiency and effectiveness of the audit managers. This problem is worsening in remote and difficult for transportation areas. When the poor due care and problem of skepticism attributes of the auditor/audit team is added to this problem the quality of audit will be in doubt. Because we have observed that there are standardized audit forms that were exactly copied from other auditee files. The capability of some of the auditors is also inadequate to understand the RAM checklist in addition to the question of applicability of some of the standards. INTOSAI allows for the customization of the audit standard based on country specific situations. The customized standard does not give focus for cash and revenue accounts for example which is a problem for auditors. Our activity depends on the movement of cash which is not the problem of developed financial system. Before adapting AFROSAI-E, the office has customized audit manual in both Amharic and English Versions that helps auditors to understand audit standards easily without language barrier where the current standard does not consider this advantage. The office focuses more on the coverage of audit (audit work) rather than the quality of audit as per the results of the discussion with audit managers and field auditors.

In the process of audit planning there are procedures that compromise the audit quality like materiality level and risk assessment process. The risk level of the majority of the auditees indicates as medium risk level. This was preliminarily identified by the office not the audit team that makes it difficult if a different risk level is expected. But, the audit team departs from the preliminarily identified audit procedure for those audit engagements that their audit evidence indicates a different level of risk than previously expected in the substantive procedure.

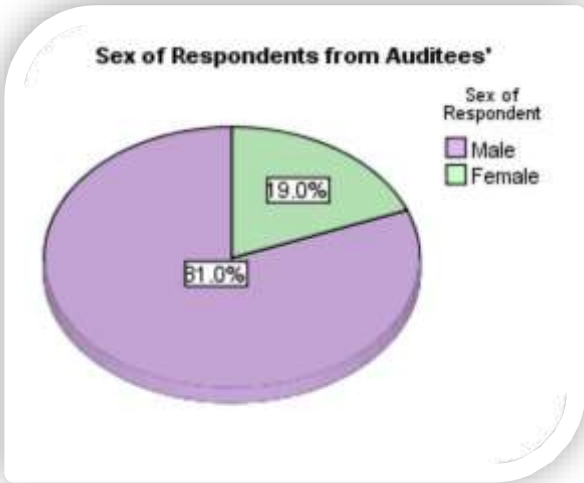
7.2 Background of Survey Respondents

A. Background of Respondents from Auditees'

The following figures depicts the participants' background information which helps to understand the respondents' general information.

Sex of Respondent:

Figure 2: Sex of Respondent

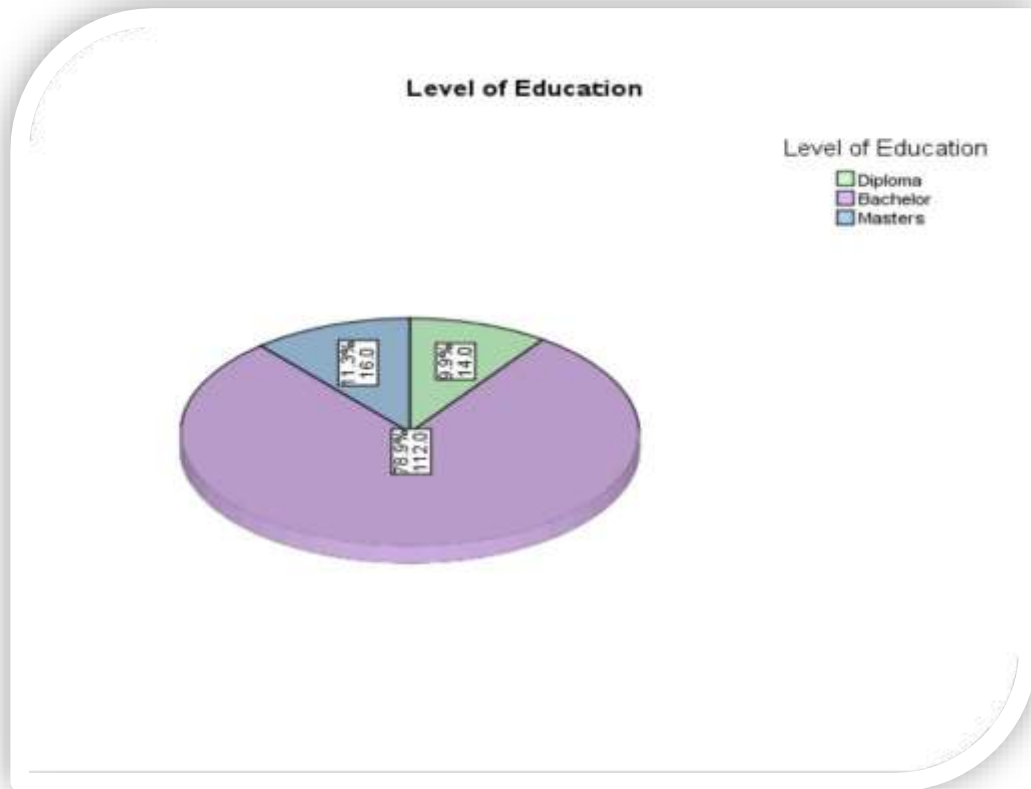


Source: Survey Result, 2019

As per Figure No 1 respondents who participated in this survey were composed of 81 percent males and 19 percent females. The number of female participants were few than that of their counterparts since it is expected that the number of female participants in the top management position are also expected to be few in the budgetary offices.

Education Level:

Figure 3: Level of Education

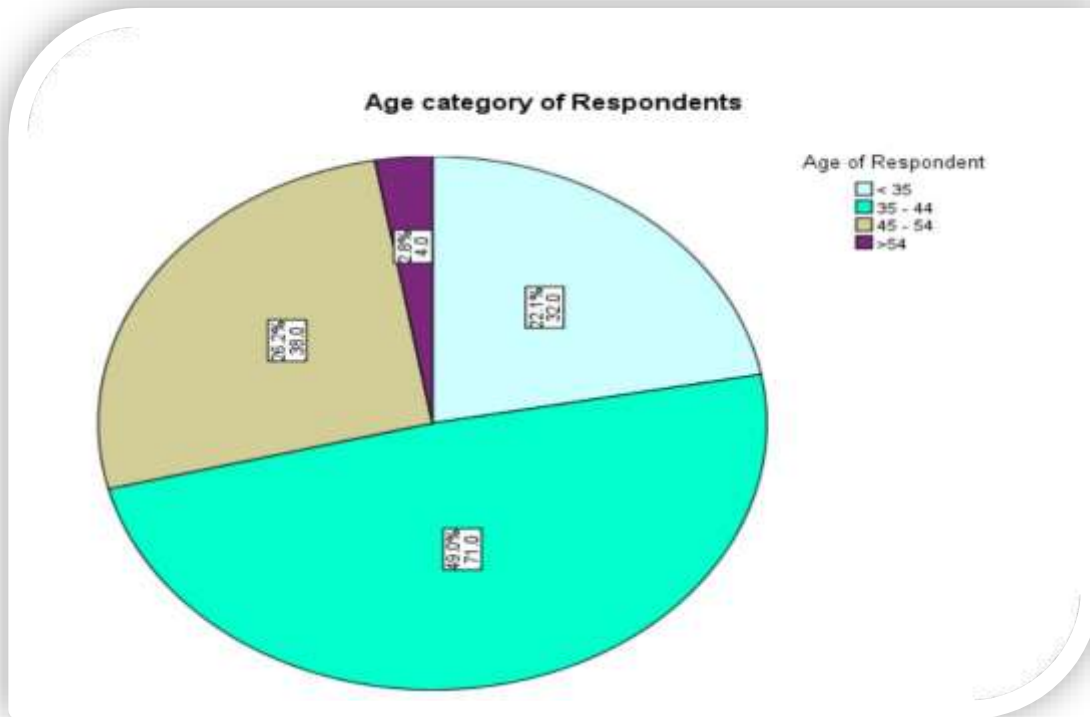


Source: Survey Result, 2019

An open-ended question was forwarded for the respondents about their educational level. From these survey participants we can understand that 14 (9.9 percent) of them have Diploma, 112 (76.9 percent) of them have Bachelor Degree and the remaining 16 (11.3 percent) respondents have Masters Degree. The majority of the respondents are with bachelor degree.

Age Category of Respondents:

Figure 4: Age Category of Respondents



Source: Survey Result, 2019

From the total of respondents participated in this survey 32 (22.1 percent) of them aged less than 35, 71 (49 percent) of them aged 35 up to 44, 38 (26.2 percent) aged 45 up to 54 while the remaining 4 (2.8 percent) aged 54 plus. Based on this the majority of the respondents of this research study are aged between 35 and 44 years.

Table 5: Experience of respondents Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
Experience in Accounting & Auditing	135	0	33	10.45	7.479
Valid N (listwise)	135				

Source: Survey Result, 2019

When we observe experience of respondents in the area of accounting and auditing the minimum service year that respondents served in these areas are zero year and the maximum is 33 years. The mean service year of respondents is 10.45 with in standard deviation of 7.5. But it is not separately recognized to

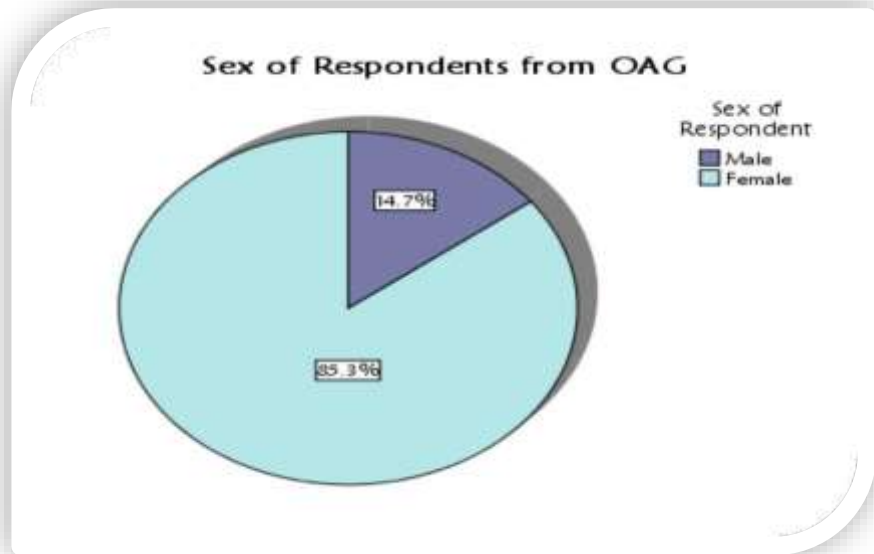
specifically understand the experience of employees in the organization. On average employees have enough experience to manage their roles and responsibilities.

B. Background of Auditors’

We have seen the demographic composition of employees from the budgetary offices in the previous tables. In this sub-section respondent from Amhara Regional State Office of Auditor General employees is depicted in the following tables which is expressed in terms of their sex composition and current position.

Sex of Auditors’:

Figure 5: Sex of Auditors’



Source: Survey Result, 2019

The above figure depicts that the majority of respondents participated in this research survey are female with 85.3 percent. The remaining 14.7 percent of the respondents are males.

7.3 Audit Quality from the Perspective of Auditees

Overall Audit Satisfaction on Quality of Audit:

Table 6: Overall Audit Satisfaction

	Strongly Disagree		Disagree		Indifferent		Agree		Strongly Agree	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
Overall audit performance	5	3.4%	13	8.9%	22	15.1%	88	60.3%	18	12.2%
Frequency of communication	3	2.1%	12	8.3%	13	9.0%	92	63.4%	25	17.2%
The level of co-operation	4	2.8%	16	11.3%	10	7.0%	72	50.7%	40	28.2%
Auditing in Amhara Region	8	5.6%	31	21.5%	49	34.0%	48	33.3%	8	5.6%
Auditing in Amhara Region has been improved	5	3.5%	22	15.3%	41	28.5%	66	45.8%	10	6.9%
Level of consistency	5	3.4%	28	19.0%	33	22.4%	74	50.3%	7	4.8%

Source: Survey Result, 2019

This section measures budgetary office (**auditee**) **employees’ perception** towards the overall performance of auditors as per their interaction in the audit process. Accordingly, respondents were asked about the overall performance of auditors. The majority of respondents (60.3%) agreed on the question. 15.1% of the survey participants are indifferent about the performance of auditors. On the rest of questions related to the overall performance of auditors’ respondents agreed on frequency of communication from your auditor (63.4%), level of co-operation between your organization and your auditor (50.7%), improvement of quality of auditing in the region during the last decade (45.8%) and consistency of quality of auditing achieved in practice (50.3%). But the majority of respondents were indifferent about the quality of auditing in the region (34%). And 33.3% percent of respondents agreed on the quality of auditing in the region.

From this we can observe that audit quality is relatively good in most of the questions as per the satisfaction of auditees on the performance of auditors. Overall performance and frequency of communication are the better scores for auditors’ performance. In the case of quality of audit in the region we can understand that respondents have reservations on it. It is nearly true for improvements of audit quality in the region also. To generalize the quality of audit as per the satisfaction of auditees it is better to check the summary statistical score of overall items later on in this section.

Auditor Technical Competence:

Table 7: Auditor Technical Competence

	Strongly Disagree		Disagree		Indifferent		Agree		Strongly Agree	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
Technical competence in Accounting Standards	3	2.1%	19	13.0%	36	24.7%	82	56.2%	6	4.1%
technical competence in Auditing Standards	4	2.8%	19	13.1%	27	18.6%	87	60.0%	8	5.5%
issue accurate and reliable audit reports	2	1.4%	11	7.6%	34	23.4%	85	58.6%	13	9.0%
expertise	5	3.4%	21	14.3%	41	27.9%	71	48.3%	9	6.1%
prior experience	6	4.1%	18	12.4%	54	37.2%	59	40.7%	8	5.5%
ethical standards	3	2.0%	10	6.8%	23	15.6%	73	49.7%	38	25.9%

Source: Survey Result, 2019

With reference to auditor’s technical competence the majority of respondents from budgetary offices replied that 56.2% agreed on technical competence in Accounting Standards, 60% agreed on technical competence in Auditing Standards and 58.6% agreed on issue of accurate and reliable audit reports. In addition, 48.3% agreed on conversant with the industry and have the expertise to effectively audit the office, 40.7% agreed on prior experience of auditing in the office and 49.7% conduct the audit field work in appropriate manner and are of high ethical standards. Hence, in all respects respondents perceived that auditors are technically competent.

Auditors technical competence is one of the major indicators of auditors’ attribute. Herewith we can say that auditors have better technical competence in the case of ethical standards, accounting and auditing standards than other measurements. They are less competent in issuing reliable and accurate audit reports and expertise next to prior experience. There need to be additional activities to be taken in order to improve the technical competency of auditors as per the perception of auditees even though we can label the auditors’ technical competence as good.

Auditor Independence:

Table 8: Auditor Independence

	Strongly Disagree		Disagree		Indifferent		Agree		Strongly Agree	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
Never engaged that compromise independence	5	3.5%	16	11.3%	33	23.2%	59	41.5%	29	20.4%
Client has control of the audit process	5	3.5%	14	9.7%	26	18.1%	83	57.6%	16	11.1%
Skeptical attitude	10	7.0%	30	21.0%	42	29.4%	46	32.2%	15	10.5%
Honesty and integrity	6	4.1%	9	6.2%	21	14.4%	73	50.0%	37	25.3%
Political neutrality	11	7.8%	13	9.2%	29	20.6%	56	39.7%	32	22.7%
Did not accept material gifts or services	5	3.4%	9	6.2%	31	21.4%	44	30.3%	56	38.6%
No pressure exerted on the audit team	5	3.4%	16	11.0%	43	29.7%	40	27.6%	41	28.3%
No mutual business interests	8	5.5%	10	6.9%	24	16.6%	47	32.4%	56	38.6%
No personal or family relationship	2	1.4%	13	9.0%	34	23.4%	51	35.2%	45	31.0%

Source: Survey Result, 2019

Similar to the previous measurements with respect to auditors' independence the majority of respondents -Agreed on most of the questions except two items. 41.5% of the respondents -Agreed that auditors never engaged that compromise their independence, 57.6% of them -Agreed that client has control of the audit process and 32.2% of them agreed that auditors have skeptical attitude. When we look honesty and integrity of auditors' respondents -Agreed that 50% of them perceive as auditors are honest and have integrity. 39.7% percent of respondents also -Agreed that the audit team performs the audit activities with political neutrality and 35.2% of them -Agreed that any of the audit team members have no personal or family relationship with any of the organization directors or senior staff in the audited office/organization. In the other respects 38.6% of respondents -Strongly Agreed that the audit team did not accept material gifts or services on favorable terms or received undue hospitality, 28.3% of them -Strongly Agreed that there was no pressure exerted on the audit team by authorities and 38.6% of the respondents -Strongly Agreed that audit team members have no any mutual business interests with the auditees' organization or with an officer or employee.

In line with other attributes of an auditor auditors' independence is also an important element when we assess the performance of an auditor. Respondents perceived less important for auditors' independence in the case of pressure exerted on the audit team and skeptical attitude than other measurements.

Audit Responsiveness to Clients' Needs:

Table 9: Audit Responsiveness to Clients Needs

	Strongly Disagree		Disagree		Indifferent		Agree		Strongly Agree	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
discusses areas of weakness	3	2.1%	8	5.5%	13	8.9%	81	55.5%	41	28.1%
advisory services and assistance	4	2.7%	14	9.6%	11	7.5%	85	58.2%	32	21.9%
relate and cooperate well with organizations staff	2	1.4%	11	7.5%	13	8.8%	85	57.8%	36	24.5%
faster response	4	2.7%	11	7.5%	28	19.0%	77	52.4%	27	18.4%

Source: Survey Result, 2019

What respondents perceived about auditors' discussion in areas of weakness with the client staff 55.5% of them –Agreed that on the question. Auditor also offers advisory services and assistance during and after the audit and 58.2% of the respondents agreed (aggregating both –Agreed and –Strongly Agreed responses) on that. 57.8% and 52.4% of the respondents –Agreed that auditors relate and cooperate well with organizations staff and budgetary offices get faster response to emerging technical issues and questions, respectively. Thus, the majority of respondents agreed on the auditors' responsiveness on the clients' needs.

This result indicates that audit responsiveness is as better as in the case of providing advisory services and assistance, discussing areas of weakness with the auditors and auditors relate and cooperate well with organizations staff. Relative to other measurement items audit responsiveness is not that much effective in line with providing faster responses to the budgetary offices.

Audit Reporting:

Table 10: Audit Reporting

	Count	Strongly Disagree		Count	Row N %	Disagree	Count	Row N %	Indifferent	Count	Row N %	Agree	Count	Row N %	Strongly Agree
		Count	Row N %												
Free of personal biases	1	1.4%	4	5.7%	14	20.0%	37	52.9%	14	20.0%					
Transparent to the auditee	1	1.0%	8	7.8%	14	13.6%	57	55.3%	23	22.3%					
Timely reported to management	2	2.0%	6	5.9%	8	7.8%	59	57.8%	27	26.5%					
Effective to highlight corruption	7	4.8%	19	13.1%	32	22.1%	72	49.7%	15	10.3%					
Purely based on evidences and facts	3	2.1%	12	8.2%	13	8.9%	79	54.1%	39	26.7%					
Clear and concise	2	1.4%	10	6.8%	17	11.6%	82	56.2%	35	24.0%					
Accurate reflection of actual conditions	1	.7%	13	8.9%	21	14.4%	82	56.2%	29	19.9%					
Outputs fully supported by the data gathered	3	2.1%	6	4.1%	19	13.0%	91	62.3%	27	18.5%					
Matter that was examined in the audit is important	1	.7%	20	13.9%	21	14.6%	78	54.2%	24	16.7%					
Indicate gaps from accounting standards	4	2.7%	6	4.1%	19	13.0%	92	63.0%	25	17.1%					

Source: Survey Result, 2019

As per the perception of budgetary office employees 52.9% of respondents –agreed that audit reports are free of personal biases, 55.3% –agreed that audit process and results are transparent to the auditee, 57.8% –Agreed that audit reports are timely reported to management and 49.7% –Agreed that audit reports are effective to highlight corruption in audited body. 54.1% of the respondents also believed that audit reports are purely based on evidences and facts, 56.2% –Agreed that audit report was clear and concise in presenting the results of the audit, and audit findings and conclusions were an accurate reflection of actual conditions with respect to the matter being examined. With reference to the question –All assertions in the audit report or other outputs fully supported by the data gathered in the audit 62.3% of respondents –Agreed on it. 54.2% of the respondents –Agreed that the matter that was examined in the audit is important and 63% of the respondents –Agreed that audit reports indicate gaps from accounting standards. The majority of respondents agreed on the audit report quality including both responses of –Agree and –Strongly Agree even though majority of the respondents replied for the option –Agree.

Hence, audit reporting of OAG indicates that the report is timely submitted to the management. The report is also more or less purely based on evidences and facts. It is also clean and concise. Similarly, the results

of outputs fully supported by the data gathered and indicate gaps from accounting standards depicts relatively the good sides of quality of the audit report. In other respects, like the reports effectiveness to highlight corruption and the importance of matters that was examined in the audit moderately reduces the quality of the audit report.

Due Professional Care:

Table 11: Due Professional Care

	Strongly Disagree		Disagree		Indifferent		Agree		Strongly Agree	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
exercise due professional care	2	1.4%	7	4.8%	20	13.8%	83	57.2%	33	22.8%
undertake works that they are competent to perform	2	1.4%	9	6.3%	30	21.0%	81	56.6%	21	14.7%
Audit conclusions are based upon audit objectives and scope	2	1.4%	7	4.9%	28	19.4%	84	58.3%	23	16.0%
Audit conclusions are based upon sufficient audit evidence	3	2.1%	12	8.3%	23	16.0%	83	57.6%	23	16.0%
apply high professional standards	3	2.1%	14	9.6%	44	30.1%	66	45.2%	19	13.0%
perform the audit in a professional manner and to the best of their abilities	2	1.4%	9	6.2%	31	21.2%	78	53.4%	26	17.8%
needs and expectations of clients	4	2.7%	16	11.0%	35	24.0%	72	49.3%	19	13.0%
complexity and extent of work	2	1.4%	14	9.6%	35	24.0%	77	52.7%	18	12.3%

Source: Survey Result, 2019

Referring different empirical evidences due professional care is also the most important contributor of audit quality measurement. When we consider the majority of respondents, here, 57.2% of the respondents –agreed that audit team exercise due professional care throughout the conduct of the audit engagement, 56.6% –Agreed that the audit team undertake works that they are competent to perform, 58.3% of them –Agreed that audit conclusions are based upon audit objectives and scope, and 57.6% of them –Agreed that audit conclusions are based upon sufficient audit evidence. 45.2% of the respondents –Agreed that audit team apply high professional standards in carrying out their work, 53.4% of the respondents –Agreed that the audit team perform the audit in a professional manner and to the best of their abilities, 49.3% of the respondents –Agreed that the audit team performs by considering the needs and expectations of clients and 52.7% of the respondents –Agreed that the audit team performs by considering the relative complexity and extent of work needed to achieve the engagement’s objectives.

When auditees perceive the due professional care of auditors they were optimistic in almost all respects of due care measurement items. They were more optimistic towards auditors in exercising due professional care, concluding based upon audit objectives and scope and sufficient audit evidence. But, they were relatively pessimist towards auditors applying high professional standards and performing to the extent of works needed to achieve the engagement activities. In the rest of measurements, they were moderate relative to other items.

Physical Work Environment:

Table 12: Physical Work Environment

	Count	Strongly Disagree		Disagree		Indifferent		Agree		Strongly Agree	
		Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
information access	3	2.1%	13	9.0%	13	9.0%	79	54.5%	37	25.5%	
full access to records	2	1.4%	15	10.3%	20	13.7%	73	50.0%	36	24.7%	
office infrastructure	8	5.6%	13	9.0%	14	9.7%	64	44.4%	45	31.2%	

Source: Survey Result, 2019

Regarding the physical work environment 54.5% of the respondents –Agreed that there is the information access that the audit team needs to do their job well, 50% of them –Agreed that the audit team has full access to records of your office and 44.4% of them –Agreed that the office infrastructure assigned for the audit team is appropriate. This means that the physical environment is good since the majority of respondents agreed on these items. But it needs additional attention in the three measurement items since there are few reservations from auditees point of view.

Summary of Indexes:

Table 13: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
Total of Perceived Audit Quality	135	1.50	4.83	3.5679	.64527	-.618	.209
Total of Auditor Technical Competence	139	1.00	4.83	3.5600	.68101	-.791	.206
Total of Auditor independence	130	2.25	5.00	3.7529	.60810	-.185	.212
Audit responsiveness to clients' needs	144	1.75	5.00	3.9358	.68241	-.996	.202
Total of Audit Reporting	143	2.20	5.00	3.9007	.58291	-.375	.203
Total of Due Professional Care	139	2.00	5.00	3.7878	.61508	-.229	.206
Total of Physical Work Environment	144	1.33	5.00	3.8958	.87481	-.744	.202
Valid N (listwise)	107						

Source: Survey Result, 2019

The above table depicts the total score of auditors' perception towards audit procedures in OAG. Specific attention is given for the mean of the statistic. To summarize the descriptive statistics on the perception of budgetary office employees towards the total score of the previous results the mean of Total of Perceived Audit Quality is 3.5679, Total of Auditor Technical Competence is 3.5600, Total of Auditor independence is 3.7529, Total of Audit Responsiveness to Clients Needs is 3.9358, Total of Audit Reporting is 3.9007, Total of Due Professional Care is 3.7878 and Total of Physical Work Environment is 3.8958.

The mean of each measurement indicates a minimum of 1 to a maximum of 5 scores which is the average of the total number of items included in these measurements. In order to interpret a mean score of a five-point likert scale we can use the following formula to determine the Cut off score to suite the interpretation in these five categories.

$$\text{Cut off point for a 5-point Likert scale} = (\text{Maximum} - \text{Minimum}) / \text{Group} = (5-1)/5 = 0.8.$$

Likert scale 1 to 1.8 (Strongly disagree), 1.81 to 2.60 (Disagree), 2.61 to 3.40 (Neutral), 3.41 to 4.20 (Agree), 4.21 to 5 (Strongly Agree) can be applied here.

Respondents tended to agree in all respects when we see the mean score of each variable since the mean score falls under the category of 'Agree' (mean = 3.41 to 4.20). Auditors have better record in audit

responsiveness to clients' needs, audit reporting and total of physical work environment relative to the rest of indicators with in the same category of scales. On the other hand, auditors recorded lower records in perceived audit quality, auditor technical competence, auditor independence and due professional care relative to the previous indicators including the dependent variable that need extra effort by each responsible body.

Improvement in Audit Findings:

Three open-ended questions were asked respondents from auditees and summarized in two topics. In this sub-section participant in the survey replied about the improvement of audit finding across periods in the office. Most of the respondents reported that audit opinion was not improved because of lack of proper follow-up by the concerned parties for the enforcement of audit findings. Some of the audit findings are not comfortable to take actions. There is no legal action to be taken on individuals who clearly committed crime or embezzlement and some of these actions are not taken at appropriate time. Even standing committee who are responsible for the follow-up of these issues did not perform their responsibilities taking into account their audit knowledge. There are also officials who lack understanding for the follow-up of audit findings. The most accountable individuals who are responsible to take corrective measures are Woreda to Regional officials (the executive) assigned to manage their offices. But these individuals were not accomplishing their responsibilities for a number of factors. Their commitment on audit findings is very low.

Internal audit function is key for achieving the mission and objectives of organizations in which the department can contribute for the correction of irregularities before the external auditors perform the audit work. In line with this, appropriate attention is not given for the audit work that where auditors are treated as fault finders. The department is not treated as supporting function in improving efficient and effective utilization of the entities resources. The top management of the entity and staffs in other departments do not cooperate and support it to perform its function. Lack of competency, fear of losing their job if the factual audit finding is reported, obstructing auditors' independence and freedom indirectly and related challenges are the major ones where auditors takes into account its impact on their social relationship. Training of auditor and restructuring the audit function based on real evidence are the concern of a number of respondents. Staffs who lost their position in job restructuring were assigned to the audit department though interviews from BOFEC confirmed that this blame is not done in the JEG assignment.

As a result of deterioration of the rule of law in the country there is an increased perception that says nobody is accountable for the audit findings s/he has committed. Coherent monitoring and support is not exercised and there is carelessness to take corrective measures for the audit findings. Even the

documentation system in the auditees office is not properly kept which makes it very difficult to bring sufficient evidences when there is court case. The audit findings task force did not perform their responsibilities properly that leads the public resources have not been returned to the expected balance. Administrators who are responsible to take corrective measures on the audit findings try to deliberately palliate and pressurize the auditors to make the work loose. Perception towards auditors is very low – experienced auditors who have skill and knowledge about the work leaves the office for better salary. Individuals who are responsible for the audit findings (gaps) might not be known, died or left the country. For the audit findings there is no any clear responsible party to take part for its follow-up. There are individuals who share from the benefits in the embezzlement of government resources who struggle to dysfunction the auditing process which is difficult to improve the audit quality. Even though administrators and internal auditors have more responsibility for the follow-up of audit findings a number of fraudsters have blood relationships in different levels of the government structure and they involve other individuals who would share from the ‘_benefits’. One respondent labeled the actions of some individuals who are responsible for the follow-up of audit findings as ‘_brinkmanship’.

On the other hand, there are also participants who say audit findings are improved when it is compared to the previous periods. But there is no clear justification to claim this by these respondents.

In the two arguments related to the improvement in the audit quality we can observe that there is a common understanding from the observations of respondents. Audit quality is the coordination effort of various bodies. The judicial body and other responsible parties are not accomplishing what is expected from them. As per the reflection of the respondents’, auditors do not have sufficient training. Accordingly, continuous training for auditors can improve audit quality. Auditors should have professional due care

As a suggestion it has been recommended that OAG (ANRS) should control the auditees’ audit findings until the problem is solved. In addition, it has been raised that internal auditors are accountable for the office itself and lacks strict control. As a result, they have to be accountable to the regional office rather than to the lower level offices in the regional government structures.

Factors Affecting Quality of Audit:

A number of empirical evidences indicated that there are different factors that affect audit quality. As per the observation of this survey participants the most important one is described here. Experienced and capable auditors are not assigned in the office of auditor general. The capacity of auditors is not improved timely for the requirement of audit activity. Lack of auditors’ skill is the most repeatedly factor that affects the quality of audit quality. Trainings that improve their skill should be given to the auditors. Training in the areas of tax, customer service, rules, proclamation and others are inadequate. Even the skilled

manpower leaves the office for a better job. Another important point cited is that when there is training the trainer assigned is not capable enough to deliver it appropriately. Training should be organized in both auditing and accounting areas. For an auditor to engage in audit activities it is a must to know the financial system of client organization. Auditors lack this knowledge of the finance system of the government. For auditors it is mandatory to follow the rules and guidelines of the audit engagement. There is no proper due care for the profession. Carelessness is observed among auditors when they perform their audit activities. They lack focus for their work. Auditors are expected to have freedom and independent. When there is immunity for the auditors they are free from external pressures to perform their audit activities. And it is a must to have immunity for auditors to perform their work appropriately with freedom.

Because of the large size of the region with the available auditors they are not devoting their time properly. Updated manuals, proclamations, codes and guidelines are not addressed to the auditors timely. The audit is not conducted within specified period. Audit opinion should be based on sufficient evidences. Training is key contributor of audit quality. There is a lack of continuous training for the auditors in the office. To improve the capability of auditors there should be career opportunities for better education and development in the office. At the time of recruitment newly employed auditors should have the necessary knowledge and skill to perform their job better. The OAG should ponder training as the main agenda of the office by identifying areas that need additional training continuously. OAG focuses only on the work performed not the skills that auditors have to manage the audit engagement. Furthermore, professional training is necessary for different audit levels: for auditors and audit team leaders in order to improve skills of auditors.

Auditors' turnover is another headache for the office which needs to encourage them through different mechanisms like using benefit schemes. The government should give focus to the office and the office should have the required resources to perform its operation well. The office should be financially independent to provide its own budgetary schedules, including salary scales. So, to get the benefits of skilled manpower the office should have a better reward and benefit schemes. By improving the rights and benefits of auditors the office can satisfy them and to be stable in their job. The office of auditor general did not have special support for the auditee organization. In connection with this, the shortage of time and materials/resources leads not to provide audit services within time. On the other hand, clients blame the audit office in delaying the responsiveness of audit findings and gaps. Auditors who are not capable enough for the audit work are assigned for the engagement. There is also transportation problem for field works to perform their activities within the specified time. The audit control system should continue in an organized manner and need to improve further relative to the current level. Some respondents also said that auditors from OAG do not communicate the internal auditors of the auditee and

do not take evidences from them. As a general suggestion, the office (OAG) primarily focused on the financial statement audit only which is practically not relevant and frauds are committed in the legal procedures of documentation. This report could not clearly indicate the existing embezzlements. From the budgeted resources auditors do not check the extent of budget utilization for the intended purpose where for the expenditures outlaid the equivalence of the output or outcome is not checked in the regularity audit. This activity is performed in the performance audit. Thus, the office can do better than this through the field work by focusing on performance audit.

The strength of internal auditors' function can support the activities of auditors. But there is lack of support and they are not encouraged to perform their activities. From the auditees side, newly modified guidelines are not delivered to the office on time. Internal auditors also lack the proper training in their office. The looseness of the control system of the auditee organization is the liability of client organization. Even though there is an improvement in audit opinions in some offices it is so difficult to find the previous year's audit findings evidences because of the proper documentation problem of the office which needs further attention by each responsible body. Auditees documentation system is not modernized and there are accounting documents which are not accepted by the auditor. This might contribute for the poor audit quality in which there need to be modernization of the documentation system.

Government lacks attention for the professions manpower – auditors - in general. If the internal auditors are accountable to the regional office rather than to the lower level offices, they can do their responsibilities better. Regular monitoring and evaluation and the auditor should have higher capability to do this. Even some of the rules, codes, and proclamations currently applied should be modified. On the other side, auditing profession is treated as inferior to the profession of accounting: accountant is perceived as the backbone of the finance and economy office among the auditee employees.

To summarize, the major factors that affect audit quality named by the survey participants are training, audit evidence, experience, employee turnover, government support, immunity, independence, resources allocated to audit engagement, control system, responsiveness of audit findings and knowledge of auditors about the government financial system.

7.4 Audit Quality from the Perspective of Auditors

Promotion and Reward:

The next table presents perception towards promotion and reward of employees in OAG.

Table 14: Frequency Table Promotion and Reward

	Strongly Disagree		Disagree		Indifferent		Agree		Strongly Agree	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
Timely Promoted	5	6.3%	11	13.9%	3	3.8%	41	51.9%	19	24.1%
Recognition	5	6.5%	10	13.0%	8	10.4%	41	53.2%	13	16.9%
Appreciation by supervisor	12	15.2%	13	16.5%	14	17.7%	35	44.3%	5	6.3%

Source: Survey Result, 2019

Three questions were forwarded for the auditors with reference to this as it is depicted in the above table. When they reply about the timely promotion no job the majority of respondents (76%) agreed on the question, totaling Strongly Agree (24.1%) and Agree (51.9%). Only 3.8% are indifferent for decision whereas the rest disagreed on it. In recognition for accomplishments 70.1% of them agreed. 50.6% agreed (totaling Strongly Agree (24.1%) and Agree (51.9%)) on supervisors' appreciation for the work done. 31.7% of them disagreed on it. This implies that the majority of respondents tended to agree on the promotion and rewards of auditors in their office. But, the measurement items under this variable are limited to only to three items.

Job Satisfaction:

Table 15: Job Satisfaction

	Strongly Disagree		Disagree		Indifferent		Agree		Strongly Agree	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
Met expectation	8	10.0%	9	11.2%	11	13.8%	33	41.2%	19	23.8%
Pleased with my work	3	3.9%	8	10.5%	8	10.5%	37	48.7%	20	26.3%
Satisfied in my current practice	9	11.2%	11	13.8%	12	15.0%	31	38.8%	17	21.2%
Current work not source of frustration	18	23.1%	23	29.5%	9	11.5%	20	25.6%	8	10.3%

Source: Survey Result, 2019

The above table depicts about the perception of auditors towards job satisfaction. As a result, 65% agreed on meeting job expectations in the office, 75% pleased with their work, 60% satisfied in their current practice and the current work situation is a major source of frustration in the life of 52.6% of the respondents. Only 35.9% of them agreed on that the current work situation is not a major source of frustration in their life. With respect to job satisfaction respondents tended to agree in all respects except current work is not source of frustration.

Availability of Budget:

Table 16: Availability of budget

	Strongly Disagree		Disagree		Indifferent		Agree		Strongly Agree	
	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %	Count	Row N %
Sufficient per diem and transport budget	61	76.2%	12	15.0%	2	2.5%	3	3.8%	2	2.5%
Sufficient audit time budget	31	38.8%	30	37.5%	2	2.5%	16	20.0%	1	1.2%

Source: Survey Result, 2019

With reference to the availability of budgets 91.2% of the respondents disagreed on the sufficiency of funds available for per diem and transport. 68.8% of the survey participants agreed that time budget allocated for each audit work is not sufficient. Only 21.2% of the respondents agreed on the sufficiency of time budget allocated for the audit work. Respondents disagreed with the availability of budget measurement as it can be possible to observe from the above table.

Audit Process and Reporting:

The audit process usually begins with a letter of engagement. In this part, the auditor confirms that he or she has accepted the engagement/assignment. He or she will be informed of the scope of the audit plus his or her expected responsibilities throughout the audit work. With an Audit program the actual external auditing will take place. The auditor will collect, assess, and interpret data to gain understanding of the organization’s activities. For each major activity listed, external auditors will have to identify and assess risks that may have significant impact on the organization’s performance or financial position. External auditors will obtain evidence in order to successfully satisfy the requirements of the audit program. This include confirming compliance with accounting policies, examining accounting records, and verifying assets that the organization has purchased and looking for any irregularities.

The results of the FGD indicates that there are auditors/audit teams who do not execute their activities properly throughout the audit engagement. They leave from their workplace and go to family where this problem is more observable in remote areas. Such type of auditors usually goes to the auditee (field work) at the begging of the budgeted time and after long days of absence, at the end of their engagement, they come back for reporting only. As per the discussion, auditees usually report the absence of these auditors in the meantime of the engagement. As per the discussion with audit managers, when they check the activities of audit teams there are considerable number of audit teams who directly copy from previous other working papers, that can be from unrelated sector audit files also. It is a matter of filling checklists rather go through the audit processes. This challenge is aggravated when some parts of the audit activities are executed in soft copies.

When we come to the observation of field auditors, the supervision activity by audit managers is loose and they come for the sake of their per diems rather than supervising the audit engagement. They do not have clear approach when, whom and which activity or item to audit. They also reported that there are some audit managers who are incapable and incompetent to under take the supervision. If there is capacity building training and guideline for the supervision activity it can contribute a lot and solve disputes.

An exit conference is generally held with the auditee (clients) management & relevant personnel and the external auditor to discuss the overall results of the review as well as the findings and recommendations to be included in the report. The meeting is planned and facilitated by the unit's Audit Manager. The Internal Auditors are also attending this meeting. After a thorough investigation, the auditors will submit a financial report and state their objective opinion. The scope of the audit and the outcome will be outlined in their report. Copies of the external auditor's final audit report are sent to all concerned.

As per our discussion, the key drawbacks with regard to this particular discussion are the lack of proper actual planning of the audit work that are free from any copy-paste and the weak link with the client's internal auditors in order to have a follow up audit.

Audit quality:

Table 17: Audit quality

	Strongly Disagree			Disagree			Indifferent			Agree			Strongly Agree		
	Count	Row	N %	Count	Row	N %	Count	Row	N %	Count	Row	N %	Count	Row	N %
Free of personal biases	6	7.5%	9	11.2%	8	10.0%	37	46.2%	20	25.0%					
Transparent	1	1.3%	8	10.4%	6	7.8%	36	46.8%	26	33.8%					
Timely reported to management	9	11.5%	11	14.1%	9	11.5%	34	43.6%	15	19.2%					
Effective to highlight corruption	9	11.4%	9	11.4%	19	24.1%	24	30.4%	18	22.8%					
Based on objectivity	2	2.6%	7	9.0%	8	10.3%	34	43.6%	27	34.6%					
Disclose audit findings	9	11.7%	7	9.1%	18	23.4%	32	41.6%	11	14.3%					
Frequency of audit	1	1.3%	9	11.5%	14	17.9%	38	48.7%	16	20.5%					
Audit quality in Amhara Region is high	6	10.3%	12	20.7%	14	24.1%	19	32.8%	7	12.1%					
Audit quality in Amhara Region increased	1	1.7%	9	15.5%	14	24.1%	20	34.5%	14	24.1%					
Consistent in auditing work	4	6.9%	8	13.8%	11	19.0%	27	46.6%	8	13.8%					

Source: Survey Result, 2019

With regard to audit quality 10 questions were forwarded for the respondents. When we observe the majority of respondents they agreed on that audit reports are free of personal biases (71.2%), audits works are transparent (80.6) and audits reports are timely reported to auditee management (62.8%). Similarly, most of the respondents agreed that frequency of audits in same firm improves the audit quality (69.2%), audit reports are purely based on objectivity (78.2%) and there is a high level of consistency between audits in the quality of auditing achieved in practice (60.4%). Relatively some respondents disagreed on the effectiveness of audit reports to highlight corruption in the audited body even though the majority of them (53.2%) agreed on it totaling scores for ‘_Agreed’ and ‘_Strongly Agreed’. Similarly, the majority of the respondents agreed on full disclosure of true audit findings by top management to general public (54.9%), and 58.6% agreed on the increased quality of auditing in Amhara Region during the last decade. This majority number decreased to 44.9% for the high quality of auditing in Amhara Region.31% of them disagreed 24.1% of them not decided on it.

This implies that survey respondents tended to agree in all respects of measuring the audit quality. But there are also a number of respondents who disagreed on the high and improved quality of audit in the region and the effectiveness of audit report to highlight corruption.

Responses from auditors for the open-ended question in the survey questionnaire described the overall evaluation of audit quality and the justification for it. Accordingly, most of the respondents replied that the quality of the office is poor. The respondents tried to justify the level of audit quality as poor since there is no continuous skill gap training, (in some areas) there is no professional independence in the office and lack of computerized/software training like IBEX and Peachtree in the office. Others also stated that quality of audit is related to quality of auditors. Auditors are inefficient in skills and hence quality of audit is poor. Compared to five years ago the current period audit quality there is quite a different status. Hence, top management and other stakeholders should work hard to improve the quality of audit with efficient and effective procedures in the region. There are many problems to achieve audit quality. The management leads the office by their perception only rather than ability. Management does not consider auditors interest. For better quality the office has to work together. Audit quality depends on the quality of supervisors. Attitude of auditees and awareness creation should be made for auditees. Even though there is a guideline to conduct the audit there is a problem of translating the conceptual problem to the practical situation and how to collect evidence and interpret the evidence gathered. The audit quality procedure is also poor. As a result of lack of continuous training and development, lack of adequate supervision, etc, there is questionable audit quality. Based on judgment of respondents the effectiveness of the office is poor. On one side, respondents replied that there is poor quality since most of the time the last decision is made by directors rather than the auditor general even though it should be decided by the audit team.

Especially, in the branch office the managerial capability of top management is weak. Since the top management members lacks the appropriate skill and leadership ability in the branch office, who does not perform their work properly, the quality of audit is poor. Hence, the head office management is expected to support the branch offices to improve the audit quality.

On the other hand, there are respondents who labeled the status of quality of audit as good. They justified that even though the audit quality is not at its excellent level it can be possible to say that it is at a good status taking into account the key issues that need further improvement. Audit quality can be improved through training and strict implementation of auditing based on laws and regulations. A respondent stated the procedures followed by the office to keep the audit quality as it is performed by professional auditors, following the strategic plan according to audit standards and completed within time. The audit quality is good which needs additional attention especially new auditors in the office lack experience. The audit quality is good and improved through time but it needs additional commitment and motivational actions to improve audit quality. The office provided the opportunity to improve skills of auditors.

