

# Compliance of External Auditors with the Professional Code of Conduct: A Case Study of Ethiopia

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## Abstract

The objective of the study was to assess the compliance of external auditors with the code of conduct while discharging their responsibilities, and its effect on the existence of CSR within client organisations in the case of Ethiopia. The study adopted a mixed research approach; cluster sampling was used to categorise the respondents based on their role within the organisation, and probability sampling was used to select the respondents. The findings show that client's demand for unqualified opinion, pressure from clients to get auditor's report as soon as possible, strong personal or financial relationship, and manager's refusal to provide necessary information are some of the constraints that affect external auditor's compliance with the code of ethics while they perform their activities. Similarly, manager's doubt that auditor's report might affect their future, manager's fear of losing their job, and management's intention to hide their mistakes are the reasons for management not to provide the necessary information to external auditors. External auditors and management of client organisations should comply with the principles of CSR at a maximum level when they perform their business activities; external auditors should understand that their compliance with the code of conduct is basic to protect the public from corrupt organisations. There should be a strong professional association or authority that controls external auditor's competence and the compliance of their work with the code of conduct, and management should present all the necessary information.

**Keywords:** Corporate Social Responsibility, External Auditor, Management, Professional Code, Business Ethics

**JEL Classification:** M40: General, M41: Accounting, M42: Auditing, M48: Government Policy and Regulation, M49: Other

## Introduction

Recently, corporations around the world are struggling with a new role, which is paying more attention to all the stakeholders in order to maximise their business profit. According to the Corporate Social Responsibility (CSR) model, corporations have an obligation to consider the interest of customers, employees, shareholders, communities, as well as the ecological foot print in all aspects of their operation. Consequently, business organisations should consider demonstrating the inclusion of social and environmental concerns in business operation and should interact with stakeholders in a way that is ethical. Occasionally, however, external auditors may perform their responsibilities unethically and this will affect the stakeholder's decision negatively. Such problems might lead the stakeholders to question whether external auditors discharge their responsibilities based on the professional code of conduct or not. In order to answer this question, in Ethiopia, few studies have been conducted related to external auditor's responsibility. For example, Ayele (2019) conducted research on the auditor's obligation and legal liability in Ethiopia, concluding that the lack of well-organized professional associations in the country prevents external auditors from adequately discharging their expert and legal responsibilities. Even if Ayele's research and other related studies have tried to explain an external auditor's responsibility in different perspectives, they still did not focus on assessing compliance of external auditors with code of conduct

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in discharging their responsibility and its effect on the existence of CSR in client organisations.

Currently, organisations in Ethiopia turn to auditors to test the integrity of the accounting procedures and accuracy of the financial data. According to the CSR model, management should balance their economic decisions with their overall effect on the society. As the decisions of interested users are based on the financial statements of the company, they should also be socially responsible to present a fair and not misstated financial statement to those users. The auditor's responsibility is to express an opinion on whether management has fairly presented the information in the financial statements. To do so, the auditor collects evidence to obtain reasonable assurance that the accounts are free of material misstatement (SAS No. 1). Unfortunately, auditors still have a problem in discharging their responsibility in a proper manner. This is because there still might be a gap between the understanding of the ethical conduct that guides auditors to discharge their responsibility and actually discharging their responsibility in compliance with those ethical conducts.

In the process of auditing a given client organisation, the role of management in that client organisation is to provide the necessary information that can be used by the external auditor. Additionally, management is responsible for the preparation of financial statements. Financial reports are an important tool prepared and used by managers of the firm to communicate financial information to investors and stakeholders, while simultaneously reducing the level of information asymmetry that exists between owners and managers (Antle & Nalebuff, 1991). However, sometimes, intentionally or unintentionally, the management might not provide the necessary information, and without some basic information of the client organisation it is difficult and unethical for external auditors to prepare audit reports. Moreover, without audit report the level of trust between shareholders (society) and a given organisation will decrease. External auditors want to make decisions which might be consistent with the public hobby in the application or hobby under audit. Consequently, they can prove that their work is protecting the society, and their service is according to the principle of corporate social responsibility. In discharging their expert responsibilities, auditors may additionally come upon conflicting pressures from the management of the audited entity, numerous degrees of government, and others who rely on the objectivity and independence of the auditors. In resolving

those conflicts, auditors are chargeable for performing with integrity, guided by the precept that after auditors satisfy their responsibilities to the public, these peoples' and corporations' pastimes are excellently served.

In step with Beyene (2007), auditors in Ethiopia are performing illegally or unprofessionally, especially once they take a look at the financial statements of an entity. There are expectations that auditors in Ethiopia were producing deceptive audited monetary statements by reporting belongings that do not exist, thinking about or no longer disclosing inadequate provision for doubtful money owed, not disclosing misapplication of accounting principles, and expressing the audit opinion based on the customer's interest and others. Due to this sort of unethical acts, the fascinated customers whose choice relies on the auditor's reviews suffer from numerous problems. One of the issues is that the unqualified judgment of the auditor would possibly lead the customers to invest money in corporations that use corrupt business practices. Alternatively, the management can also use those reviews to wrongly degree the efficiency and profitability of the corporation. Finally, the honour that the societies have for the accounting career is probably misplaced.

In addition to Beyene's rationalisation, in Ethiopia, some of research were performed associated with auditors and their auditing practices, but in exclusive views. As an instance, Ayele (2019) performed a study on the auditor's expert obligation and legal responsibility with regard to private auditors in Ethiopia. Wudu (2014) aimed to promote awareness of auditor's responsibility and fraud detection in Ethiopian private businesses, whereas Kitata (2016) attempted to raise awareness of the value of external auditing in Ethiopian industrial banks. So, the studies have attempted to forward symptoms to auditors in Ethiopia in step with professional duty and legal responsibility; however, they did not take a look at the compliance of external auditors' paintings with the moral code of conduct. Therefore, the motive of this study changed from taking a look at to evaluating if the external auditors who prepare audit records of groups in Ethiopia play their hobby in compliance with the moral code of conduct, and whether or not they remember the well-being of the society during the auditing procedure. Moreover, this study was designed to explore whether or not the management prepare misstated financial statements, and if or not they provide all necessary information for the auditing process. The understanding of external auditors and finance managers of the concept of CSR and standards

in the code of conduct will be assessed. In order to assess the compliance of external auditors in Ethiopia with the code of conduct and its overall impact on the CSR (corporate social responsibility) of clients, the following research questions have been formulated to conduct the study:

- Do external auditors discharge their responsibility in compliance with the code of conduct?
- Do external auditors, finance managers, and other professionals have a clear understanding of the concept of CSR?
- Does the compliance of external auditors with the code of conduct have a positive effect on the existence of CSR in different organisations?
- Does management give all necessary information to external auditors to contribute to the success of the auditing process?
- What constraints exist on external auditors in attempting to exercise their responsibility in compliance with the ethical code of conduct?

## Review of Related Literature

In line with Derek (2006), the collapse in the US of Enron and WorldCom, collectively with their auditors, Arthur Andersen, has centred the public spotlight on the company audit and made it an exceedingly controversial aspect of the accountant's work. In Britain, the current criminal action by way of Equitable Life towards Ernst & Young is best the ultra-modern in an extended line of scandals at BCCI, Maxwell, and the Barings financial institution, among many others. A record of auditing for the primary time lifts the lid off the work of the auditors, and information how historically they have got themselves into the prevailing state of affairs. In line with Tanko (2011), auditing has its history to a big extent decided via the history of accounting, as the latter metamorphosed and culminated with the development of the sector economy. Auditing existed frequently as a method to keep governmental accountancy, and report-keeping was its mainstay. It was at the advent of the commercial revolution, from 1750 to 1850, that auditing began its evolution into an area of fraud detection and financial responsibility (Gupta, 2004).

The improvement of accounting in Ethiopia appears early because the 3<sup>rd</sup> century A.D. at some stage in the Axumite state of the country as a form of keeping

the report in numerous shape (Dessalegn, 2009). The present-day accounting in Ethiopia commenced for the duration of the 1900 Emperor Menelik installed Finance and treasury ministry which was to keep statistics of the King's treasury. the opposite issues is the development of public accounting in Ethiopian, starts offevolved while the British accounting corporations like rate Waterhouse Peat & Co., set up their branches in the Ethiopia round 1940 (Yohannes Kinfu, 1990). In 1944, Audit commission changed into mounted by means of Proclamation no. sixty nine/1944 the to examine and manage of the debts of the Ministry of Finance and changed into at once responsible to the high Minister and this proclamation turned into amended in 1946 even though pro seventy nine/1946 that provided to centralize the audit and manage of all government bills in a single department by way of establishing the audit and manage workplace underneath the route of the comptroller. Consistent with Senait (2003), articles 120 and 121 of the revised charter of 1955 truly conferred the rights and responsibilities of auditing all ministries, departments, and organisations to the auditor general, whose office became established as a separate, independent entity that suggested immediately to the emperor and to parliament. The proclamation required the auditor to publish periodic reviews to the emperor and to parliament on the economic operations of the authorities, and entitled the auditor to get right of entry to all books and records concerning authorities' money owed. In the end, the functions of the auditor preferred have been amended via decree No. 32 of 1958. In 1961, workplace of the auditor popular (OAG) was established by using proclamation no. 199/1961. This proclamation provides an extra authority than was supplied by other proclamations issued earlier than 1958 (Yohannes Kinfu, 1990). Furthermore, this proclamation has been revised in 1979 and 1987.

The alternative enormous exchange inside the accounting and auditing expert is the development of the commercial Code of Ethiopia in 1960, the code Article 368 requires the availability of accounting and auditing for commercial enterprise organizations limited by way of shares (government of Ethiopia, commercial Code of the Empire of Ethiopia, (Proclamation No. 166/1960), 1960) but the code contribution for the development of accounting and auditing because of it not: (a) specify the accounting standards to be accompanied in financial reporting; (b) define the qualifications of an auditor; (c) require compliance with professional standards on auditing; or (d)

impose an audit requirement upon non-public restrained companies with less than 20 participants (Global Bank, 2007). In 1979, Proclamation No. 164/979 changed into issued to re-outline the powers and responsibilities of the Auditor well-known by way of giving additional responsibility for auditing mass companies, development initiatives as well as conducting performance auditing. but because of loss of loss of qualified manpower and increased in public employer the Auditor standard not successful to cowl the audit of most of these organisations, as a result, in 1977, the Audit offerings company was established with the aid of proclamation No. 126 of 1977 to render audit services to production, distribution and service giving groups of which the government is the proprietor or majority shareholder.

After overthrowing the military regime in 1991, the countrywide Shengo issued proclamation No. 13/1987 to set up the workplace of the auditor trendy of the humans' Democratic Republic of Ethiopia. This proclamation came into effect until the country delivered the brand-new federal authorities' structure in 1994. Based totally on these constitutional provisions, proclamation No. 68/1997 was enacted to set up the workplace of the Federal Auditor popular (OFAG), which gave the power and responsibility to undertake monetary and performance audits (or purpose to be audited) on debts of the federal authorities' workplaces and organisations, money owed regarding budgetary subsidies, and unique offers prolonged via the federal government to nearby states. Similar to these activities, OFAG has empowered to adjust the accounting and auditing career encompass licensing of all auditors within the United States, issuing a Code of Ethics for expert accountants, and taking disciplinary measures on proven acts of misconduct by using expert accountants. In 2010, Proclamation 669/201 was issued through house of Peoples' Representatives of the Federal Democratic Republic of Ethiopia; to amend the strength, duties and responsively of OFAG. Later, at the end of December 2014, economic Reporting Proclamation No. 847/2014 was issued to shift the regulatory function of OFAG on accounting and auditing profession to the newly established board, Accounting and Auditing Board of Ethiopia (AABE), which was installed by way of regulation No. 322/2014.

According to Sarasota (1973), auditing is a scientific method of objectively gathering and comparing evidence

about financial movements and activities to estimate the degree of correspondence between those assertions and set standards, as well as communicating the outcomes to the interested customers (American Accounting Association) (Sarasota, 1973). Auditing may be categorised as monetary audit (outside auditors) that ensures that economic statements are accurate; operational audit (inner and government auditors) that allows to enhance operational economy and improve operational efficiency of an enterprise; enterprise compliance audit (inner and government auditors) that make sure compliance with employer and/or governmental policies and rules; and finally, forensic audit that made research and forensic turns on of the organization (American Accounting Affiliation) (Fekede, 2015).

As in keeping with ISSAI 220, financial declaration audit focuses on figuring out whether or not an entity's monetary statistics is offered in accordance with the applicable economic reporting and regulatory framework (The global requirements of perfect Audit (ISSAI)). When delivering an opinion on whether financial statements comply with applicable accounting rules, the auditor must gather information to determine if the auditee organization's monetary assertion is free of any material errors or misstatements. Auditors are predicted to offer reasonable guarantee, but no longer absolute assurance, that the economic statements are offered pretty, in all fabric respects, and/or provide a real and fair view according to the financial reporting framework. The purpose of an audit is to provide an independent examination of financial statements in order to improve the accuracy and credibility of financial statements produced through control, thereby increasing users confidence in the financial statements, lowering investor risk, and thus lowering the cost of capital for the financial statement preparer.

The policeman principle claims that an auditor is answerable for searching, discovering, and preventing fraud. The focus of the audit, however, has moved in the direction of the verification of the truth and the fairness of the monetary statements and the provision of reasonable guarantee. The policeman theory is not able to provide an explanation for the position and the motive of auditing (Gliem, 2000). According to the lending credibility concept, the primary function of the audit is to add credibility to the financial statements. Audited economic

statements increase the financial announcement customers' self-belief inside the economic figures and faith in the management's stewardship. The lending credibility no longer gives an explanation for other functions of audit services; this idea is confined in explanatory electricity. Zerni (2009) defined audit provider as particular among different expert offerings, for two primary reasons. First, auditors are hired and paid by way of the customer, but their product is honestly used by the 1/3-events like buyers to whom they owe a widespread of care. Second, the fine of an audit cannot be immediately discovered previous to contracting and, in general, now not even after the audit is carried out (Fekede, 2015).

Auditing is the buildup and assessment of proof about records to determine and document at the diploma of correspondence among the information and installed criteria. Auditing has to be performed by using a ready, unbiased person. The call for audit arises from the capability struggle of interest that exists among stakeholders and executives. As referred to by way of Arens et al. (2006), the call for audit is precipitated via many elements, consisting of the remoteness hole between the customers of the monetary statements and the preparers of those statements; the struggle of interest between the customers of the monetary statements; the complexity of the monetary transactions; and the predicted effect of the monetary statements on selection making (Gudich, 2016). However, because the audit record is the medium of verbal exchange between the auditor and the users of the audit report, this file ought to be understandable, objective, and familiar to the users as an applicable source of statistics. The relevance of the document is that it needs to make a distinction in decision-making; otherwise, the customers of the monetary statements will not read the document and will not recall it during the decision-making process.

### Theories Advocating Auditing

The contractual arrangement among those events commonly calls for that management issue a fixed of economic records that purports to expose the economic function and outcomes of operations of the entity. A brief evaluation of the theories advocating the want for auditing giving upward push to contractual arrangement beneath: (a) policeman theory; (b) credibility idea; (c) moderator of claimants' concept; (d) quasi-judicial idea; (e) concept of inspired confidence; and (f) organisation principle (Gudich, 2016).

#### Policeman Theory

This changed into the maximum extensively held idea on auditing until the 1940s (Hayes et al., 1999). Under this idea, an auditor acts as a policeman who specialises in arithmetical accuracy and on prevention and detection of fraud. However, the notion appears to have lost a lot of its explanatory power due to its inability to provide an explanation for the move in auditing to 'Verification of reality and equity of the economic statements.

#### Credibility Idea

This theory regards the primary feature of auditing to be the addition of credibility to the monetary statements. Audited economic statements are utilised by the management (agent) for you to decorate the essential's religion inside the agent's stewardship and decrease the statistics asymmetry. However, Porter (1990: 50) concludes that "Audited statistics does now not form the number one basis for buyers' investment decisions".

#### Moderator of Claimants' Concept

It is critical, according to this principle, that all critical contributors in an employer maintain their ability to participate. It is important that every organisation believes it gets an honest share of the organisation's profits via giving an opinion on the diverse pursuits represented in the amounts proven therein.

#### Quasi-Judicial Idea

In this theory, the auditor is regarded as a judge in the financial distribution process (Hayes et al., 1999: 36). However, Porter concludes that (i) an auditor's choices and decision technique are not publicly to be had; (ii) the doctrine of precedence/consistency is not guaranteed in auditing; and (iii) an auditor's independence differs from a chose's independence because of the extraordinary reward machine concerned.

#### Concept of Inspired Confidence

This idea was developed within the past due Twenties by using the Dutch professor, Theodore Limperg's concept (Hayes et al., 1999: 36). Limperg's concept addresses the demand for and the supply of audit services. In keeping with Limperg, the demand for audit services is the direct

outcome of the participation of outdoor stakeholders in the organisation. The stakeholders demand accountability from the management in return for their contribution to the organisation. Considering that records provided by the management are probably biased, a possible divergence among the hobby of management and out of doors stakeholders, an audit of the facts are needed. In regard to the level of audit assurance that auditor must provide (the delivery side), Limperg adopts a normative approach. The auditor's task should be executed any such manner that the expectancies of a rational outsider are not thwarted. So, given the opportunities of audit generation, the auditor needs to do everything to fulfil affordable public expectancies.

### Organisation Principle

Enterprise concept analyses the relationship between events: traders and executives. The agent (i.e. manager) undertakes to perform positive responsibilities for the important (i.e. buyers) and the primary undertakes to reward the agent (Jensen & Meckling, 1976). In line with this concept, the function of the auditor is to supervise the relationship between the supervisor and the owners. An opening expectation takes place while the distribution of the duty is not always nicely defined. The duty of everyone is well described in the law. The supervisor and the proprietors have to realise that the auditor now does not have responsibility of the accounting, but only to see that the auditing is accomplished properly (Andersson & Emander, 2005). It is argued that in an organisation, wherein share possession is widely unfolded, managerial conduct does not continually maximise the returns of the shareholders (Donaldson & Davis, 1991). The degree of uncertainty about whether or not the agent will pursue self-hobby in place of observes the necessities of the contract represent an agent chance for an investor (Fiet, 1995). Given that principals will constantly be inquisitive about the outcomes generated through their marketers, corporation principle demonstrates that accounting and auditing have an essential assignment in offering facts; this undertaking is often associated with stewardship, wherein an agent reports to the foremost at the corporations' occasions (Gudich, 2016).

### Code of Ethics of Professional Accountants

Moral professional requirements are relevant to the audit of financial statements in one-of-a-kind international

locations, especially those with developed capital markets. These standards are also issued by means of global our bodies along with IFAC. Compliance with these requirements of integrity, objectivity, and independence is the duty of the audit company, person partners, and professional group of workers. The audit company ought to establish policies and procedures, appropriately documented and communicated, to ensure that the audit company and all folks who are in a function to influence the behaviour and final results of the audit respect the essential moral ideas. In carrying out their obligation, auditors need to be impartial to the customer; such independence is in phrases of fees, family courting, and other pastimes. For example, it is recognised that a dependence on profits from a selected patron or organisation of clients can also impair objectivity. A company which derives a maximum of its earnings from one customer may additionally find it hard to make a stand on a specific problem, as a lack of that consumer could have a disastrous impact on the firm's monetary function (Foulks Lynch, 2004).

The code of ethics states the standards and expectations governing the conduct of people and companies within the conduct of auditing. It describes the minimal necessities for behaviour and behavioural expectations, rather than precise reports. Auditors' code of ethics is a device or code of behaviour based on moral obligation and duty to explain how an auditor must behave. The cause of code of ethics is to sell an ethical tradition inside the career of auditing and give steering to auditors serving others (IESBA, 2013). As per the International Ethics Board for Accountants' (IESBA) requirements issued on January 2011, and the code of ethics of professional accountants issued via the office of Federal Auditor preferred of Ethiopia, any professional accountant has to follow the essential ideas of code of ethics of expert accountants, although out his expert existence (IESBA, 2013), (OFAG, Ethiopian Code of Ethics for Professional Accountants, 2009). As per worldwide Ethics Standards Board for Accountants (IESBA), an expert accountant is required to comply with the following fundamental ideas:

*Integrity:* A professional accountant ought to be clear-cut and honest in all professional and enterprise courting.

*Objectivity:* A professional accountant ought to not permit bias, war of interest, or undue influence of others to override professional or commercial enterprise judgments. Rule of behavior – Rule 102 – states that: “within the performance of any expert provider, a

member shall preserve objectivity and integrity; shall be free of conflicts of interest, and shall no longer knowingly misrepresent statistics or subordinate his or her judgment to others” (Arens, Elder & Beasley, 2012).

*Professional Competence and Due Care:* A professional accountant has a continuing obligation to maintain expert information and ability to the extent required to verify that a consumer or agency gets ready professional services based on cutting-edge traits in exercise, rules, and techniques.

*Confidentiality:* An external auditor usually has access to tremendously private records, no longer otherwise disclosed to the public, about the patron’s affairs. Users of the services of outside auditors must be capable of feeling assured that there may be a framework of professional ethics governing the availability of these services. This requires that auditors respect the confidentiality of information acquired in the duration of the audit and must no longer use or reveal any such information without proper and specific authority, or until there is a prison or professional proper or obligation to disclose. Rule of conduct – Rule 301 – states that: “A member in Public practice shall now not reveal any exclusive consumer facts without the unique consent of the consumer” (Arens, Elder & Beasley, 2012). Expert accountants should conduct themselves in a professional manner and provide the highest quality warranty services. An external auditor needs to act in a manner constant with the good popularity of the profession and chorus from any behaviour that could discredit it.

## Auditor Conduct

Auditor behaviour has been the point of interest of researchers for quite some time now. However, it is emphasised more due to the latest fundamental corporate disasters. Dysfunctional audit behaviour (DAB) is related to decreased audit best and is a sizeable hassle. Independent external auditors are responsible for conducting an objective and independent evaluation of organisation’s economic statements, and provide an opinion as to whether or not they present a real and truthful view of the employer’s economic role (Smith & Emerson, 2017). Ceresney (2016) termed auditors as “vital gatekeepers” within the system of economic reporting. As a result, anything that has the capability to negatively affect the audit great is a matter of apprehension for all

stakeholders (Herrbach, 2001). Dysfunctional auditor behaviour (DAB) has been below examination and interest of researchers due to the fact that it is related to audit failure and decreased audit exceptional (Tervo, Smith & Pitman, 2014). There is an agreement among the psychologists and researchers that a character’s persona has the capacity to persuade his or her behaviour, and character developments are determinants of behaviour (Robertson & Callinan, 1998). Lightner, Adams and Lightner (1982) declared that private ideals affect an auditor’s inclination to have an interaction in a dysfunctional audit conduct. Malone and Roberts (1996) additionally professed that private traits of auditors are among the reasons for an auditor’s dysfunctional behaviours. Additionally, it is also set up that organisations can examine the persona of its members to forecast their numerous workplace behaviours (Lee, Ashton & Vries, 2005; Marietza, 2010). Building on these findings, researchers have endeavoured to discover the impact of character and its one-of-a-kind components on DAB (but what is missing within the existing literature is an integration of the combined persona approach as a determinant of DAB).

## Dysfunctional Audit Conduct

For higher comprehension of dysfunctional audit behaviour, it is essential to understand the time period dysfunctional conduct. Any behaviour that may harm the health of an employer and is dangerous to participants of the agency is considered as dysfunctional conduct (Fleet & Griffin, 2006). Dysfunctional behaviour is contained within the taxonomy of delinquent conduct. Giacalone and Greenberg (1997) defined the antisocial conduct as “any behavior that brings damage or is meant to bring harm, to a business enterprise, its personnel, or stakeholders” (p. vii). Peterson (2002) termed dysfunctional behaviour as an employee’s horrific behaviour that adversely impacts work quality and members of the family, and costs the agency both monetarily and socially. There are comparable bad behaviours; dysfunctional behaviour is found in literature, together with counterproductive paintings behaviours, place of work deviance, administrative center incivility, and many others. Argyris first used the dysfunctional conduct term in the accounting context in 1952 (Paino, Ismail & Smith, 2010). Jaworski and Young (1992) defined dysfunctional behaviour as “to violate gadget guidelines and strategies” (p. 18). Hartmann (2000) asserted that dysfunctional behaviour is not always virtually “irrational” conduct; instead, these are

reactions that may be sensibly anticipated in response to governing and processes. The extent to which those controls are expected to affect the overall performance tests and ultimately, rewards, is also seen as having an impact on managerial stress and tension, and therefore, is important to understand probable dysfunctional behaviour (Hartmann, 2000).

Certain actions of auditors that cause substandard audits are referred to as dysfunctional audit behaviours (Donnelly et al., 2003a). Dysfunctional audit conduct is likewise labeled as reduced audit first-rate behaviour (RAQB) and satisfactory threatening behaviour (QTB) (Otley & Pierce, 1996; Coram, Ng & Woodliff, 2003; Bedard, Deis, Curtis & Jenkins, 2008).

### External Auditors' Independence

There are numerous arguments regarding whether outside auditors' work is unbiased of the client organisation's influence. Since the goal of this study is to assess auditors' professional responsibilities and the compliance in their responsibilities with the moral code of conduct of the profession, in regard to outside auditors in Ethiopia, it is hard to get empirical studies that cover this topic. So, the researcher tries to encompass some opinions by reviewing empirical studies related to auditor's professional ethics and their responsibility. In the case of Ethiopia, some research has been conducted professional ethics in the accounting career. Bayou (2016) performed a study on threats to expert ethics in Ethiopia; the objective of the research turned into identifying the threats that obstruct adherence to professional ethics among authorised accountants and certified auditors in Ethiopia. The study's approach employed for the study became combined studies augmented with easy statistical analysis. The findings imply that there are lapses within the observance of expert ethics.

Wudu (2014) examined auditor obligation and fraud detection in Ethiopian personal audit companies. The study was conducted to observe the roles and responsibilities of outside auditors in fraud detection in Ethiopia, including the factors that have an impact on outside auditors' duty and professional overall performance in detecting fraud. The study adopted a mixed methods research, through combining data collecting units of questions, extensive interviews, and record analysis. The findings of the study display that auditors are chargeable for detection

and uncovering fraud, and are legally responsible for ultimately determining misstatement in audited monetary statements.

Fekede (2015) examined the current reputation of expert ethics and independence of personal audit companies engaged in Ethiopia and its standard effect on audit quality. The main goal of the study was to look at the modern-day status of private audit corporations' professional ethics and independence, and its general effect on the excellent audit provider supplied to the public on 20 private audit companies, decided based totally on stratified random sampling approach. The study used descriptive records to research the gathered primary and secondary records using SPSS. The outcomes imply that maximum personal audit firms no longer observe expert ethics and absence of independence from their purchaser. The observer recommends that personal audit companies ought to offer their professional offerings to the public in compliance with the rules. The rules of the regulatory bodies, the Accounting and Auditing Board of Ethiopia, should put together a nicely organised code of professional conduct and ethics that is strictly carried out with the aid of all private audit, regulatory, and expert bodies. They have to set strong audit control, follow trendy audit practices, and enforce all audit and other constructive recommendation listed at the end of the researcher paper.

Gudich (2016) studied factors affecting auditor's independence in Ethiopian private audit firms. The researcher used Likert-rated questionnaire to get responses from 78 auditors in 26 audit corporations in Ethiopia. The study used descriptive statics and regression equation to analyse the gathered number one and secondary. The effects of the examination revealed that the level of opposition in the audit services market, tenure of an audit company serving the needs of a given customer, and length of audit prices obtained through the audit company with regards to overall percentage of audit revenue have poor and sizeable effect on auditors' independence and the supply of non-audit carrier has huge high-quality impact on auditors' independence. The researcher mainly advocated that auditors ought to stay strictly independent in thoughts and in appearance.

Ayele (2019) conducted a study on auditors' professional obligation and criminal legal responsibility with reference to private auditors in Ethiopia. The study examined the prison legal responsibility of auditors and their professional responsibility and achieved by

questionnaire and interview as a method of inquiry. This covers 72 specialists from exclusive groups and audit corporations. The goal of the research became to become aware of the significance that personal auditors exercising their professional and criminal duties in undertaking audit sports. Moreover, to study if non-public auditors are difficulty to prison liability for committing illegal audit practices. The finding of the study revealed that; absence of nicely prepared expert bodies, selection of auditors based totally on own family or buddies dating, dependence of auditors on their customers for economic and different interest, forwarding of an opinion based totally at the demand in their clients, and irregularity of laws and policies are causes auditors not to properly exercise professional and legal obligations in Ethiopia. It additionally encouraged that involved our bodies to formulate sturdy professional association of auditors to follow up the interest of personal auditors.

### Conclusions and Knowledge Gaps

In Ethiopia, a few researchers attempted to see ethics from the angle of the auditor's felony, professional liabilities, and fraud detection, even as others attempted to see from the independence perspective. As stated in the theoretical part of literature evaluation, although the ethical duty is confirmed in the pyramid as a separate category of CSR, it ought to additionally be seen as an issue that cuts via and saturates the whole pyramid. Consequently, management (as a part of a given business enterprise) and outside auditors (as a part of audit companies) need to work in compliance with the moral code of conduct in their profession, so that they can prove they are working for the advantage of society and that they absolutely understand the concept of CSR. Additionally, outside auditors can impact enterprise corporations to work for the advantage of the society, as they can report if a corporation is performing unlawful activities. Because of a record which is prepared in compliance with the code of conduct, extraordinary participants of the commercial enterprise society (i.e., shareholders, traders, authorities, and so on) can be protected from illegal activities. Although outside auditors would possibly perform unethically, they understand the ethical standards and principles of the profession inside the code of conduct. The above points display how it is vital for the society that outside auditors discharge their duties in compliance with the moral code of conduct of the profession. This

is primary to shield the society from the illegal activities of various agencies. However, it is clear that researchers have noticed that there are no comprehensive studies that observe the compliance of external auditors' work with the code of conduct and its effect on the lifestyles of CSR within distinct agencies. Consequently, this study has attempted to fill the gaps stated above.

### Materials and Methods

According to Creswell (2009), research design is a plan or proposal to conduct research. Moreover, it is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. For this study, the descriptive research design was adopted to assess the compliance of external auditors in Ethiopia with the code of conduct of the profession. The researcher used both primary and secondary data for the analysis. The primary data was collected through a questionnaire. To gather the necessary information, primary data was collected from respondents through a survey questionnaire that is completed electronically using the Internet (through respondents' e-mails and LinkedIn application). The questionnaire was prepared with open-ended and close-ended types of questions, which are relevant to the subject of the study, using an application called Survey Heart. Finally, the researcher used a secondary source of data, which was obtained through review and selected materials, such as research papers, books, articles, and journals. The target population of the research was external auditors who are working in different firms and finance managers, internal auditors, and other professionals who work in a client company.

The sampling technique used in this study was probability sampling and cluster sampling. Cluster sampling was used to categorise the respondents based on their role within the organisation as finance managers, independent (external) auditor, internal auditors, and other professionals (who have experience in finance). On the other hand, probability (random) sampling was used to select the respondents from all over Ethiopia to represent each cluster. The questionnaires were distributed to 102 personnel and collected from different organisations in Ethiopia. In doing so, the researcher distributed the questionnaires through the Internet using Survey Heart mobile application, and based on personal judgment, considering selected respondents who have

enough knowledge with regard to the auditing profession in Ethiopia. The total sample representative of the first cluster is 38 finance managers randomly selected from different organisations in different sectors. In the second, third, and fourth cluster, 18 internal auditors, 21 external auditors, and 25 respondents with another role within their organisation were randomly selected and included, respectively (See Table 1). Furthermore, some of the respondents, excluding external auditors, have prior experience as external auditors.

In this study, various statistical analysis were employed to analyse the raw data. Descriptive statistics is used to highlight the nature of the data and describe the variables used in the study by the researcher to describe, compare, and contrast various data that has been collected from the respondents. Additionally, the researcher used Microsoft Office (Excel, 2013) to analyse the raw data and for graphic presentation. Generally, the quantitative data from the questionnaires were analysed using simple descriptive statistics and presented in the form of graphs and tables. This enabled the researcher to make the analysis, to see the compliance of external auditors with the code of conduct, and what effect it has on the existence of CSR within different organisations.

## Results and Discussion

A total of 120 questionnaires, which dealt with the compliance of external auditors with code of conduct, and the understanding of different professionals about the concept of CSR, were distributed through the Internet (using email address and LinkedIn mobile application) to the sample respondents. However, only 102 questionnaires were collected, all of which had useable responses.

Considering the difficulty of collecting data in developing countries, it was satisfying to use the technology to get respondents from all over Ethiopia.

**Table 1: Number of Respondents in each Type of Cluster**

Cluster Type	Frequency	Percentage
Finance Manager	38	37.25%
Internal Auditors	18	17.65%
External Auditors	21	20.59%
Other Professionals	25	24.51%
Total	102	100%

In addition to the information in the table, from a total of 18 internal auditors, ten had past experience as external auditors; from 38 financial managers, seven had experience as external auditors. Moreover, from a total number of 25 other professional respondents, which includes finance officers, group tax heads, and managing partners, five had past experience as external auditors. These indicate that all respondents are chosen from the finance sector.

## Response about Finance Manager's Understanding of CSR

Finance managers who work for client companies have responsibilities to the society that extend beyond making a profit. Table 2 shows the responses of 38 financial managers, and four other respondents with prior experience as finance managers, of their understanding of the concept of CSR and the existence of CSR within the organisation in which they are currently working.

**Table 2: Finance Manager's Response on Corporate Social Responsibility**

R1. I have a clear understanding of the concept of Corporate Social Responsibility.	Respondents					
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Frequency	23	19	0	0	0	42
Percentage	54.76%	45.24%	0%	0%	0%	100%
CSR2. The organisation I am working in considers the well-being of the society in performing business activity.	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Frequency	20	17	3	1	1	42
Percentage	47.62%	40.48%	7.14%	2.38%	2.38%	100%

As we discussed in the theoretical part of the literature review, the responsibility of the management is to present a fair financial statement for the users. Additionally, in the auditing process, management should present all the necessary information to external auditors. However, based on the perspective of external auditors and other professionals in the accounting sector, from the above table it is clear that management in client companies do not discharge their responsibility. As we know, CSR is about serving the society by ethically and professionally discharging the expected responsibility. From the

respondents' (excluding finance managers) perspective, managements are not socially responsible.

### External Auditors' Understanding of CSR

To discharge their responsibility in a good manner, external auditors should understand the concept of CSR, and through this they can protect society. Table 3 shows the respondents' response to the question of whether or not external auditors have a good understanding of CSR.

**Table 3: Respondent's Response about External Auditor's Understanding of CSR**

CSR3. External auditors can identify if an organisation is socially responsible or not by checking the fairness of financial statements.	Respondents					
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Frequency	30	40	22	8	2	102
Percentage	29.41%	39.22%	21.57%	7.84%	1.96%	100%
CSR4. External auditors have a clear understanding of CSR.	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
	Frequency	19	24	14	3	0
Percentage	31.67%	40%	23.33%	5%	0%	100%
CSR5. External auditors who do not discharge their responsibility in compliance with the code of conduct of the profession, cannot protect the society from corrupt business organisations.	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
	Frequency	39	16	4	0	1
Percentage	65%	26.67%	6.67%	0%	1.66%	100%

From the above analysis, the researcher concluded that external auditors all over Ethiopia have a clear understanding of CSR. Furthermore, they can identify whether or not a given organisation is socially responsible. Another conclusion is that external auditors can protect the society if and only if they discharge their responsibilities ethically based on the code of conduct. According to Ferreire (2018), external auditors serve as one of the primary protectors of corporate governance (CSR) in any entity. However, before external auditors contribute to the CSR of an entity by identifying and reporting those organisations that are not responsible to the society, they should use the concept of CSR practically. Next, the analysis of respondents' response about the compliance of external auditor's work with the code of conduct will be presented.

### Compliance of External Auditors to Professional Code of Conduct

#### Integrity, Objectivity and Independence

According to the rule of conduct, rule 102, "In the performance of any professional service, a member shall maintain objectivity and integrity; shall be free of conflicts of interest and shall not knowingly misrepresent facts or subordinate his or her judgment to others". Furthermore, general standards of the rule of conduct require auditors to be independent, which means a CPA must be free from conditions that threaten objectivity or the appearance of objectivity. Table 4 and 5 show the respondents' response concerning independence, objectivity, and integrity of external auditors.

**Table 4: Description of Financial Managers' Response about Their Attitude towards Independence**

Q1. Having a personal or other type of relationship with external auditors is important to simplify their work.	Respondents					
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Frequency	3	8	2	16	13	42
Percentage	7.14%	19.05%	4.76%	38.1%	30.95%	100%
Q2. The financial statement of the organisations I am working in is mostly prepared by external auditors who are involved in the auditing process.	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
	Frequency	2	10	4	13	13
Percentage	4.76%	23.81%	9.53%	30.95%	30.95%	100%

**Table 5: Description of Respondents' Response (excluding Finance Managers) with regard to External Auditor's Independence, Objectivity, and Integrity**

Q1. External auditors should not allow bias or conflict of interest when they give professional judgment.	Respondents					
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Frequency	40	18	2	0	0	60
Percentage	66.67%	30%	3.33%	0%	0%	100%
Q2. External auditors should have personal or other relationship (economical) with the company they are auditing.	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
	Frequency	2	2	5	17	34
Percentage	3.33%	3.33%	8.34%	28.33%	56.67%	100%
Q3. Managers in the client company influence external auditors in the auditing process.	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
	Frequency	6	27	5	13	9
Percentage	10%	45%	8.33%	21.67%	15%	100%
Q4. The financial statement of organisations all over Ethiopia are mostly prepared by external auditors who are involved in auditing the organisations.	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
	Frequency	2	14	6	25	12
Percentage	3.33%	23.33%	10%	41.67%	20%	100%
Q5. Managers do influence external auditors' work.	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
	Frequency	9	27	5	13	6
Percentage	15%	45%	8.33%	21.67%	10%	100%

From Tables 4 and 5, we can observe that although some of the finance managers have less understanding about auditor's independence, a majority of them opposed the importance of having personal or other types of relationship with external auditors for the success of the auditing process. Additionally, most of the respondents did not agree with the involvement of external auditors

in the preparation of the financial statements of the organisations in which they are working. This implies that a majority of financial managers have a clear understanding of independence. However, external auditors and other professional (36 of total 60) respondents agreed that managers working in client organisations do influence external auditors while they discharge their responsibility.

According to the AICPA code of professional ethics, a CPA shall not express an opinion on financial statements of an enterprise, unless he and his firm are independent concerning such company and an opinion on the fairness of presentation of financial statements should be issued only if he or she is independent of the client both in mind and appearance (Rocco et al., 1997). As a result, external auditors are also responsible since they are involved in expressing their opinion on the financial statements of an

organisation that does not allow their independence, even though the influence comes from managers.

### Professional Competence and Due Care

External auditors should not portray themselves as having expertise or experience they do not possess (Foulks, 2004). Table 6 shows respondents' response about external auditor's professional competence and due care.

**Table 6: Description of Respondents with Regard to External Auditor's Professional Competence and Due Care**

Q1. External auditors are well trained and competent enough before they engage in the auditing process.	Respondents					
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Frequency	23	42	22	14	1	102
Percentage	22.55%	41.18%	21.57%	13.72%	0.98%	100%
Q2. External auditors discharge their responsibilities based on due professional care.	Respondents					
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Frequency	18	28	9	5	0	60
Percentage	30%	46.67%	15%	8.33%	0%	100%

The above analysis implies that external auditors have professional knowledge and skills that make them competent enough for the auditing process. Furthermore, they observe the profession's technical and ethical standards before discharging their professional responsibilities.

### Confidentiality

Rule 301 of the rule of conduct states that "A member in Public Practice shall not disclose any confidential client information without the specific consent of the client". Moreover, external auditors should not volunteer information about the clients unless there is a legal duty. Table 7 describes respondents' response about external auditors' confidentiality.

**Table 7: Description of Respondents with Regard to Confidentiality of External Auditors**

Q. External auditors respect confidentiality of information acquired from clients, unless there is a legal duty.	Respondents					
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Frequency	46	43	9	4	0	102
Percentage	45.1%	42.16%	8.82%	3.92%	0%	100%

According to the above rule and analysis, the researcher identified that clients and different respondent professionals are satisfied with external auditors' confidentiality. Furthermore, the analysis implies that most external auditors in Ethiopia do not include confidential information of clients, unless it is with the consent of clients or there is a legal duty.

### Constraints that Affect External Auditor's Compliance with Ethics

As discussed in literature review, ethical professional standards are applicable to the audit of financial statements in different countries, particularly those with developed capital markets. According to Beyene (2007),

there are expectations that auditors in Ethiopia have been producing misleading audited financial statements by reporting assets that do not exist, considering or not disclosing inadequate provision for doubtful debts, not disclosing misapplication of accounting principles, and expressing the audit opinion based on the client's interest and others. As a result, it is essential to examine what constraints affect external auditors when they discharge their responsibility in compliance with the code of conduct. Table 8 shows the responses of the respondents, who agreed that external auditors do not discharge their responsibility in compliance with code of conduct and about the constraints that affect external auditors.

**Table 8: Description of Respondents with Regard to the Constraints that Affect Compliance of External Auditor's Work with the Code of Conduct**

(Respondents can chose more than one)

<i>Q1. Constraints that Affect Compliance of External Auditor's Work with the Code of Conduct</i>	<i>Number of Respondents (who chose each)</i>
1. Client's demand for unqualified opinion.	36 (60%)
2. Pressure from clients to complete their work as soon as possible.	38 (63.3%)
3. Fear of losing client.	46 (76.67%)
4. Managers do not provide necessary information.	32 (53.3%)
5. Strong relationship (i.e. friendship, neighbourhood, family member) with clients.	36 (60%)
6. Clients demand audit service.	12 (20%)
7. Clients demand lower price.	28 (46.67%)
8. Lack of knowledge.	17 (28.3%)

In the other section of the questionnaire, open-ended questions were prepared and asked of the respondents. The first question asked the respondents why external auditors might not discharge their responsibilities in compliance with the code of conduct and most of them replied that some of the reasons may be financial, legal, or threats from the relationship with clients. Generally, the above analysis implies that most constraints come from the clients.

## Conclusion

This study assessed the compliance of external auditors with the code of conduct and whether or not their compliance can contribute to the existence of CSR in the

client organisations. In addition, the understanding of professionals in the accounting sector, such as external auditors and finance managers, about CSR and standards in the code of conduct of the profession was assessed. The researcher also highlights the constraints that affect external auditors when they attempt to discharge their responsibilities in accordance with the code of ethics. Moreover, the researcher assessed whether or not managements provide the necessary information for the auditing process, and finally, if or not managers and external auditors consider the well-being of the society while performing their activities. According to the view of most of the respondents in the accounting sector (i.e. external auditors, finance managers, internal auditors, and others), the results suggested that both finance managers and external auditors have a clear understanding of the concept of CSR. Furthermore, most of the respondents, as a professional in the accounting sector, have an adequate understanding of the principles and standards in the code of conduct of the accounting profession. Based on the perspective of respondents, external auditors who discharge their responsibilities in compliance with the code of conduct can protect the society from investing in a corrupt company, and through this they can contribute to the existence of CSR.

The results of the study show that managements (client organisations) all over Ethiopia are not working in accordance with CSR, as they are not providing all the necessary information for the auditing process. Such character shows that they are not discharging their responsibilities ethically. Moreover, the responses from the open-ended questions show that the reasons the management does not provide the necessary information include manager's doubt that auditor's report might affect their future, manager's fear of losing their job, and intention to hide their mistakes. The findings on the data analysis also show that, even if external auditors have adequate knowledge and professional competence, they violate some of the basic principles and standards within the code of conduct, such as independence from the client organisation. Similarly, external auditors violate the principle of fee and commissions by accepting a low-ball price from a client organisation for their service, and the reasons for this includes fear of losing clients, stiff market competition, and the intention of having a long-term relationship with the client. As a result, the researcher concluded that external auditors do not discharge their responsibilities in compliance with the code of conduct

of the profession. Additionally, this unethical behaviour and non-compliance with professional ethics in the code of conduct implies that external auditors do not discharge their responsibilities by considering the well-being of the society, as ethics is the basic part of the CSR model. The final part of the analysis shows that client's demand for unqualified opinion, pressure from clients to get auditor's report as soon as possible, strong personal or financial relationship, and manager's refusal to provide necessary information are some of the constraints that affect external auditors while they try to discharge their responsibilities in compliance with the code of ethics.

### Scope for Further Research

The scope of this study can be expanded to conduct research on other professionals, such as internal auditors, as it only focuses on external auditors and management in client organisations. Therefore, scholars in the business sector should consider conducting research on the effect of performing business activities in accordance with the concept of CSR on the well-being of the society; the assessment of compliance of internal auditors with the code of ethics; and also the effect of non-compliance of accounting professionals with the code of ethics on the stakeholders.

### Compliance with Ethical Standards

#### Ethical Approval

All procedures followed were in accordance with the ethical standards of the responsible committee on human experimentation (institutional and national) and with the Helsinki Declaration of 1975, as revised in 2000.

#### Informed Consent

Informed consent was obtained from all participants for being included in the study. Additional informed consent was obtained from all individuals for whom identifying information is included in this article.

#### Conflict of Interest Statement

On behalf of all authors, the corresponding author states that there is no conflict of interest.

### Data Availability Statement

All the necessary data is included in the manuscript.

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