

# The Effects of Information Asymmetry and Documentation on Audit Quality: Evidence from Public Institutions in Ethiopia

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The overall objective of this study is to explore the effects of information asymmetry and documentation on audit quality in Ethiopia. In addition to information asymmetry and documentation, the study added controlling variables such as auditor independence, audit evidence, professional competence, and experience. A sample of 250 was selected using simple random sampling techniques. An ordered logistic regression is used to test the relationship between audit quality and explanatory variables. The findings indicated that audit evidence, professional competence, documentation, and auditor experience positively influence audit quality, while information asymmetry and auditor independence negatively and significantly affect audit quality. The contribution of this study lies in the potential value of the agency and monitoring hypothesis theory to overcome information asymmetry. Further, this study provide prized input to the government and various public institutions in Ethiopia in designing the effective controlling mechanism that increase audit quality

**Keywords:** Audit quality; documentation; audit evidence; independence

JEL Classification: F65; M41; M42; P33.

**Introduction**

Auditing is not a recent phenomenon; it may be traced back to relics in ancient Babylon and Egypt, where archaeological findings showed the presence of certain business transaction supporting papers that allowed for a basic kind of verification and accounting (Petra & Tieanu, 2014). It contributes significantly by providing objectively established and impartial reports on the accuracy of the financial data. Through an independent review, both private and public entities are interested in adopting and overseeing the accounting system to prevent, identify, and punish financial information fraud. In conclusion, auditing is the gathering and evaluation of evidence concerning data to evaluate and report the degree of correspondence between the data and established criteria (Alvin A. et al., 2009).

Good public sector governance relies heavily on auditing. The public sector auditor is responsible providing oversight, insight, and foresight into public resources. Oversight examines whether public-sector institutions are performing as they should, as well as detecting and preventing corruption. Insight provides decision-makers with an unbiased review of public sector programs, policies, operations, and results. Trends and impending difficulties were identified using foresight. To achieve each of these duties, auditors employ instruments, such as financial audits, performance audits, examinations, and consulting services (Date, 2012). A government audit's goal is to keep track of, verify, and evaluate the

government's responsibilities. A government audit is a method of verifying and controlling public administration. Their activities and the economy, which centers around them, were examined.

Hardiningsih et al. (2019) studied the determinants of audit quality in Indonesia and found competence, independence, professional skepticism, and professional ethics had a significant positive effect on quality of audit. In their study argues that auditors' characteristics, such as educational background, professional experience, and political affiliation influence the audit quality. Ndubuisi et al. (2017) investigated audit quality determinants in Nigeria and found that audit independence, tenure, and audit firm size influence the quality of audit reports. According to the reasons for audit failure arise from three aspects: accounting and reporting, audited companies, and audit standards. When the local government implements an accrual accounting system and has a high-quality financial report, it will have an impact on the quality of public services [1-3]. Moreover, the local government, which has a level of suitability for follow-up with high audit recommendations on average, has a better-quality financial report in the following year.

Regarding empirical evidence in Ethiopia, conducted a study on the assessment of the implementation of audit findings reported by the Office of Auditor General in Ethiopian Public Sectors [4]. Their study revealed that the main reasons for lack implementation of audit findings in public sectors are lack of interest in audit

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reports, absence of integrated effort to implement audit reports, weakness in follow up, and delay in audit report presentation to audited entities. Therefore, the absence of audit findings implementation in public offices results in the wastage of public treasury and opens a way for corruption and criminal acts. Demeke, (2020) studied the determinants of external audit effectiveness in the Amhara National Regional State Bureau. The findings of his study revealed that public sector assets could not provide reasonable assurance by auditing whether the general objectives of organizations were accomplished. This indicates a weakness in the internal control of entities, which includes effective systems of risk management, an effective internal audit function, internal control, and an audit committee as part of the framework of control. Tekalign & Asfaw, (2019) conducted their studies on the effect of internal audit quality on organizational performance in the southern nation nationality people regional state, Ethiopia. They found that independence, formal mandate, competent leadership, competency of internal audit staff, and management support positively influence internal audit quality, while objectivity, internal audit standards and unrestricted access to audit evidence negatively correlate with internal quality. To the best of our knowledge, the study conducted in Ethiopia did not consider the relevant factors that affect audit quality. Specifically, information asymmetry and documentation have not yet been investigated in this area in either private or public institutions. Moreover, most prior studies focus on private sector audit quality. Finally, a country is generally unable to achieve audit quality and frequently results in low audit outcomes. Hence, this study intends to identify the effects of information asymmetry, documentation, auditor independence, audit evidence, professional competence, and auditor experience on audit quality from a public sector perspective in Ethiopia.

## Literature review

### Theoretical framework

Agency theory can be used to justify the underlying theory used to describe the current study framework. Agency theory provides a theoretical basis for auditors' independence in bridging the information asymmetry gap between the principal and agent [5]. Because of the separation of ownership and control, an agency relationship has developed as a function of a contractual arrangement between two parties: the principal and managers. Managers are appointed by principals, who transfer decision-making authority to them. In doing so, principals place their trust in their managers to act in their best interests. However, due to information asymmetry between principals and managers as well as conflicting motivations, principals may lack faith in their managers, necessitating the implementation of procedures such as the audit to restore that trust. According to agency theory, organizations with more serious agency problems are more likely to require audit quality [6]. Another theory that supports this study is the monitoring hypothesis. This theory contends that auditing is necessary for monitoring purposes. This theory assumes that agents need to be monitored, especially when the costs of monitoring are low compared with the benefits. The main emphasis of this theory is to deal with information asymmetry between the principal and agent. It also seeks

to address the problem of moral hazard. Thus, according to this theory, there must be public disclosures and have the information inspected by independent actors and [7, 8].

### Factors affect audit quality

#### Audit quality and auditor independence

Auditor independence provides investors confidence in audited financial statements. Any threat to audit independence may undermine this confidence. Impairment or lack of auditor independence is the main cause of many corporate collapses and corporate scandals across the world. Without independence, audit quality and audit detection duties are questionable [9]. Further, the existence of non-audit services, audit tenure, the auditor-client relationship, and client importance influence auditor independence. Independence continues to be a problem when it comes to determining the accuracy and credibility of investors' financial statements [5]. Hardiningsih et al. (2019), Ndubuisi et al., (2017), Tekalign & Asfaw, (2019) argue that auditor independence affects the quality of audit reports. An auditor's lack of independence increases the possibility of being perceived as not being non-objective. This means that the auditor is unlikely to report a breach. Even if an immaterial amount exists in the financial statement, a lack of independence forces the auditor to have bad audit results.

#### Audit Quality and Audit Evidence

Audit evidence depends on information that provides a factual basis to enable the auditor to develop an audit opinion. There is no mathematical formula or specific model to evaluate the quality of audit evidence. Their quality depends upon the professional judgment concerning the audit technical standards, the accounting references, its sources, and nevertheless the auditor's ethics [10]. Reliable audit evidence has significant effect on audit report and then reliable audit evidence is an important influencing factor in the audit report so that the presence or absence of sufficient and reliable audit evidence can modify the audit report.

#### Audit Quality and Professional Competence

Professional competence is related to adequate education and experience auditors have regarding examinations or other certain fields. A high level of professional competence is gradually achieved through training and practical experience in the audit process. The adequate knowledge of auditors in the fields of accounting and auditing enables them to carry out audit assignments effectively and qualitatively. The prior empirical evidence confirms that professional competence significantly affects the quality of audit reports and make them to form negative opinion [11].

#### Audit Quality and Information Asymmetry

Many of the auditors face the risk of information asymmetry and management motivation to commit fraud. The central objective of having an independent auditor is to minimize the risk of information asymmetry and fraudulent behavior by management. Auditors are required by the International Auditing Standards to detect material fraud and errors, and they are expected to have a duty of care for stakeholders. However, independent auditors, whether

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conducting private or public audits, have recently been scrutinized for failing to detect material fraud [12]. The agency problems associated with the separation of ownership and control, along with information asymmetry between management and absentee owners, create demand for external audits [13].

### **Audit Quality and Documentation**

Access to all documents and financial statements on time is one of the starting points for conducting an audit and form an audit opinion. Document and financial statement submission significantly affect standard qualified audit opinions (Sutaryo et al., 2020). In Ethiopia, the submission of the documents and financial statements on timely basis was one of the worst problems for auditors to conduct the audit (FOAG, 2020).

### **Audit Quality and Auditor Experience**

To conduct the audit work, the auditor must have experience in the field of accounting, auditing and the client industry. Auditor experience influences the auditor's ability to identify errors, whereas training increases expertise in conducting audits [14]. Auditor experience will increase by increasing audit experience and discussions about auditing with colleagues, supervisors, and reviews from senior accountants [15]. The application of maximum knowledge will certainly be in line with the increasing experience [16]. According to employing people with more experience increases audit quality by enhancing the professional competence of the auditor; auditors gain a deeper knowledge and better judgments to achieve audit quality. Auditors characteristics such as experience may serve as a signal of the level of care that will be exercised during the audit process [17, 18]. Furthermore, experienced auditors know better and understand the accounting and auditing process so that the resulting audit report is of higher quality [19].

### **Empirical Review**

The study explored by on determinants of the audit quality in Indonesia revealed that independence and accountability have a significant impact on audit quality whereas experience does not affect audit quality. Similarly, added that the lack of independence of the external auditor is one of the main reasons for the failed auditing process. The also confirms that an increase in the auditing team's experience in the auditing process leads to increased external auditing quality. The auditors' experience further improves the quality of audits [20-22]. A negative coefficient of experience indicates that there is a negative relationship between the auditor's experience and audit quality. The longer the auditor's experience, the worse the quality of the audit

The study conducted by on audit firm characteristics and audit quality in Nigeria revealed a positive relationship between firm size, board independence, and audit quality, whereas there is a negative relationship between auditor independence, audit firm size, and audit tenure and audit quality [23]. According to the ethics, experience, fees and motivation of auditors had a significant positive effect on audit quality[24]. Further, the auditing decreases the information asymmetry of accounting numbers and minimizes the

residual loss of managerial opportunities in financial reporting.

The study estimates by show that there is a positive significant relationship between auditor's independence and auditor competency in audit quality[25]. The result also revealed that an auditor's competency is the most significant factor affecting the audit quality in public sector audits. When auditors are more competent, they have wider knowledge and experience to perform a more quality audit and provide substantiated opinions on financial statements. Similarly, the probability that an auditor will detect a breach depends largely on the probability of discovery, which is related to the auditor's competence and auditors' independence [26]. Welay (2019) added that independence is one of the factors that can be used to improve the quality of internal audits, this is because independence is a mental attitude that must be owned by an auditor in carrying out an audit, so the auditor must behave in terms of independence in fact and independence in appearance. Work experience has a positive effect on audit quality; the more experienced the auditor is the easier it will be to detect audit problems.

The empirical study conducted on the factors affecting auditing quality in Albania by confirmed a negative association between audit quality and auditors' independence. Budiandru (2021) conducted a study on factors affecting the audit quality of pandemic era public accountants [27]. His study revealed that professional care, accountability, and office reputation significantly affect audit quality during a pandemic. An increase in professional care improves audit quality.

Siddiqi et al., (2020) investigated the factors affecting audit quality among public accountants in Malang. Their study revealed that education level, competency, and auditor fee positively influence audit quality whereas profession, motivation, and audit experience negatively influence audit quality. In addition, examined the effects of auditor independence and audit fees on audit quality and found that both auditor independence and audit fees significantly influence audit quality [28]. These results indicate that measures to enhance auditing quality can be taken by employing independent attitudes and determining sufficient audit fees.

Nawas & Ramadan (2013) empirically analyzed the factors affecting the quality of auditing in case of Jordanian commercial banks. Their findings suggest a positive and significant correlation between audit quality and efficiency, reputation of auditing office, auditing fees, size of audit firm, and auditor's proficiency. The study conducted by on determinants of information technology audit quality in Vietnam revealed that auditor independence, accounting knowledge and audit skills are the most important factors. Because external auditors perform many assurance services, independence is a critical part of auditing [29]. In addition, auditors need to have sufficient competent and professional skills when conducting an audit, especially in an IT environment that requires high quality.

### **Conceptual framework**

Based on the existing literature the following conceptual framework is formulated

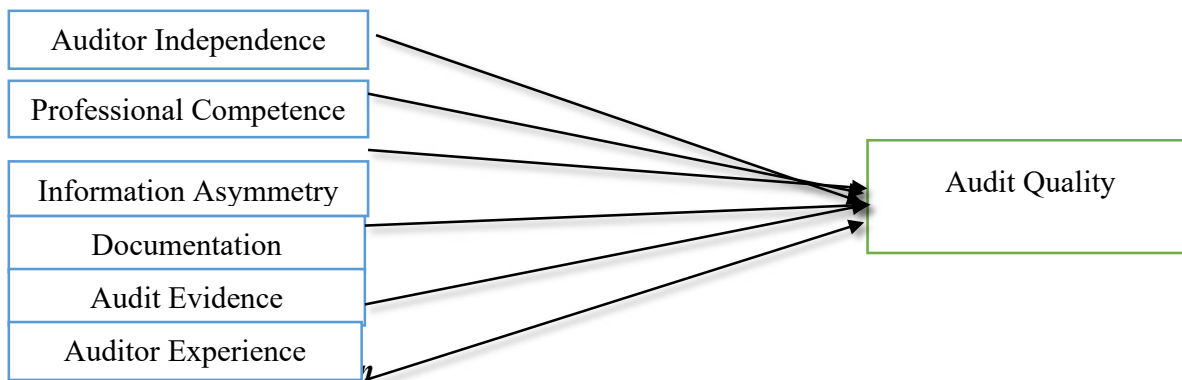


Figure 1: Conceptual framework

### Hypothesis Development

Based on the above empirical evidence, we propose the following the hypothesis:

**Hypothesis 1:** Professional competence positively correlates with audit quality.

**Hypothesis 2:** Auditor experience negatively correlates with audit quality.

**Hypothesis 3:** Audit evidence negatively correlates with audit quality.

**Hypothesis 4:** Information asymmetry negatively correlates with audit quality.

**Hypothesis 5:** Documentation negatively correlates with audit quality.

**Hypothesis 6:** Auditor independence positively correlates with audit quality.

### Research Methodology

#### Research Design and Approaches

Research design helps researchers provide data that answers the research questions or achieves the research objectives. There are many types of research designs, depending on the types of data that the researcher want to collect and analyze, such as action, causal, experiment, cross-sectional, and descriptive. In this study, a cross-sectional explanatory research design was adopted. The researcher used quantitative research approaches because combining multiple methodologies provides a more complete understanding of the research problem than could be obtained through the individual methods alone.

#### Data types, sources, and collection techniques

To achieve stated objectives in the previous section, primary were collected. The primary sources of data were external auditors in Ethiopia. From this respondents, data used for this study were collected using administered questionnaires.

#### Sampling techniques and size

From a total of 500 auditors in Ethiopia, the researchers were selected 250 using simple random sampling.

#### Instrumental Reliability and Validity

Before distributing the instruments to respondent, the researcher

conducted a pilot test. The reliability test is an important test for the sound measurement of the questionnaire. In the current research, the researchers employed Cronbach's Alpha ( $\alpha$ ) which is the most common measure of scale reliability, and a value greater than 0.700 is a very acceptable Cronbach's alpha. To measure the consistency of the questionnaire, particularly the Likert-type scale, reliability analysis is essential to reflect the overall reliability of the constructs that it is measuring. The validity of the questionnaire was measured using the validity test carried out by the researchers before actual data analysis.

#### Model specification and variable measurement

The study used an audit quality as a dependent variable which consisted of a five-point Likert scale type (1= strongly disagree, 2=disagree, 3= neutral, 4= agree, 5=strongly agree). Thus, the dependent variable is an ordinal category; hence the ordered logistic regression analysis was used for the analysis. A latent variable model commonly presents an ordinal regression model. By defining  $y^*$  as a latent variable ranging from  $-\infty$  to  $\infty$ , the structural model is  $Y^* = X_i\beta + e_i$ , where  $Y^*$  is an audit quality measure that it shows the propensity for agreement.  $X_i$  shows all independent variables believed to affect audit quality measures, and  $e_i$  is the error term. The continuous latent variable  $Y^*$  has various threshold (cut) points depending on the number of ordinal categories that the dependent variable has. For J number categories there is a J-1 number of threshold (cut points). The dependent variable of this study was measured by five ordinal categories ( $\pi_1$ = strongly disagree,  $\pi_2$ =disagree,  $\pi_3$ = neutral,  $\pi_4$ = agree,  $\pi_5$ = strongly agree), there are four cut-points or thresholds.

$Y^*$  can be indicated as follows:

*(1=strongly disagree if  $y^* \leq \pi_1$  @ 2=disagree if  $\pi_1 < y^* \leq \pi_2$  @ Y= 3=neutral if  $\pi_2 < y^* \leq \pi_3$  @ 4=agree if  $\pi_3 < y^* \leq \pi_4$  @ 5=strongly agree if  $\pi_4 < y^* \leq \pi_5$ )*

It is possible to estimate the following probabilities that Y takes on the particular value by using four cut points,

$$P(Y=1) = \frac{1}{1+\exp(\pi 1-XB)}$$

$$P(Y=2) = \frac{1}{1+\exp(\pi 2-XB)} - \frac{1}{1+\exp(\pi 1-XB)}$$

$$P(Y=3) = \frac{1}{1+\exp(\pi 3-XB)} - \frac{1}{1+\exp(\pi 2-XB)}$$

$$P(Y=4) = \frac{1}{1+\exp(\pi 4-XB)} - \frac{1}{1+\exp(\pi 3-XB)}$$

$$P(Y=5) = 1 - \frac{1}{1+\exp(\pi 4-XB)}$$

The final ordered logistic regression model using cumulative probabilities written in the following manner  
 $p(AQ)=\beta_0+\beta_1 PC+ \beta_2 AI+ \beta_3 DOC+\beta_4 IA +\beta_5 AE+\beta_6 EXP+\mu$

Where,

**AQ** = Audit Quality, **PC** = Professional competence, **IA**= Information asymmetry, **DOC** = Documentation, **AE** = Audit evidence, **EX- P**=experience and **AI** = Auditor Independence.

**Table 1: Variable Measurement**

Variable	Definition	Measurement	Expected sign
<b>AQ</b>	Audit Quality	Five likert scale	-
<b>PC</b>	Professional competence	Five likert scale	Positive
<b>AI</b>	Auditor Independence	Five likert scale	Positive
<b>Exp</b>	Auditor Experience	Continues	Negative
<b>IA</b>	Information asymmetry	Five likert scale	Negative
<b>DOC</b>	Documentation,	Five likert scale	Negative
<b>AE</b>	Audit evidence	Five likert scale	Negative
<i>Source: Authors'</i>			

## Result and Discussion

### Descriptive statistics

#### Survey distribution and response rates

The study was based on a survey of 250 respondents. A total of 250 questionnaires were randomly administered to respondents. At the end of the fieldwork, 232 usable questionnaires were retrieved, representing a response rate approximately 92.8%, and all were used in the analysis.

### Gender of the respondents

As indicated in Table 2 below, 176(75.86%) respondents were men and 56 (24.14%) respondents were women. Therefore, from the table, it is understood that the majority of the auditing is conducted by males.

**Table 2: Frequency distribution of gender characteristics of respondents in the sample**

Sex	Freq.	Percent
Male	176	75.86
Female	56	24.14
Total	232	100

Source: *SPSS 20*



### Field of studies and education background

As shown in the table below, 4(1.72%), 216(93.10%), 8(3.45%), and 4(1.72%) of the respondents studied auditing, accounting and finance, management, and business education, respectively. Regarding their level of education, 160(68.97%) of the respondents

had a bachelor's degree. Around 68(29.31%) of the respondents were master's degree holders, while 4(1.72%) were diplomas. There were no PhD degree holders in this area. From the analysis, we can conclude that auditing was conducted with bachelor's degree holders

**Table 3: Field of studied and level of education**

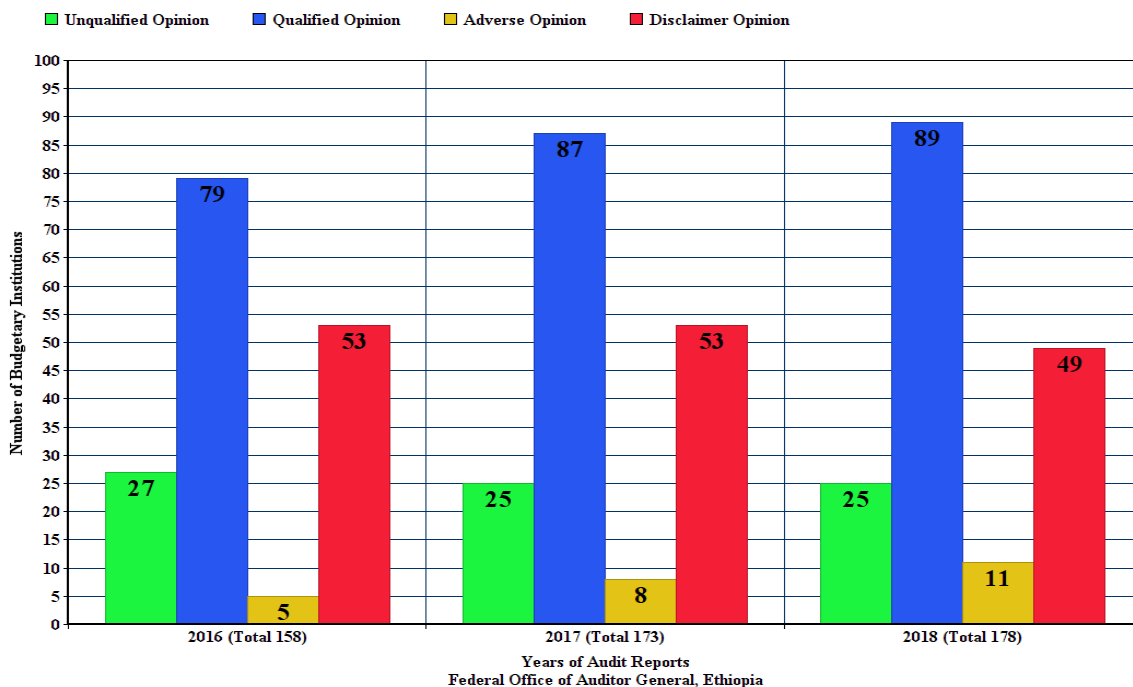
Qualification	Freq.	Percent	Fields of studied	Freq.	Percent
PhD	0	0	Auditing	4	1.72
Master's degree	68	29.31	/Accounting	216	93.1
Degree	160	68.97	Economics	0	0
Diploma	4	1.72	Management	8	3.45
			Other	4	1.72
Total	232	100		232	100

Source: SPSS 20

### Analysis of the Secondary Data

In Ethiopia, reports from the auditor general office show that in 2016, an audit was conducted on 158 public institutions. Among them, 27(17.09%), 79(50%), 5(1.58%), and 53(33.54%) public institutions obtained standard unqualified, qualified, adverse, and disclaimer audit opinions, respectively. In 2017, the reports show that from 173 public institutions in Ethiopia, 25(14.45%), 87(50.29%), 8(4.62%) and 53(30.64%) obtained standard unqualified, qualified, adverse, and disclaimer audit opinion respectively. Furthermore, the report revealed that from 178 public institutions

in 2019, 25(14.04%), 89(50%), 11(6.18%), and 49(27.53%) obtained standard unqualified, qualified, adverse, and disclaimer audit opinions, respectively. The result show that most audited public institutions in a country's are dominated by qualified audit opinions, followed by adverse audit opinions. From the above analysis, we may able to conclude that, some public institutions financial statement prepared in the country doesn't follow the international standard. In other words, auditors may issue an adverse and disclaimer of opinion when there is a severe limitation to the scope of the audit.



**Figure 2: Audit opinions in the Ethiopia**

Source: Federal office of the auditors general, 2022

### Instrumental Validity and Reliability Test

#### Valid Test Result

The purpose of the validity test was to determine how far the instruments measured correctly and accurately. Validity testing used product-moment correlation with the acceptance criterion. The

questionnaire item is valid if the r-calculated is higher than the r-table (critical value) at a degree of freedom of 95% and 99% ( $\alpha = 0.05$ , and  $0.01$ ). Therefore, in this study, the criteria were met, and all of the instruments were valid

**Table 4: Validity test result**

Auditor independence					Audit quality				
Code	Obs.	r calculated	r table	Remark	Code	Obs.	r calculated	r table	Remark
AI1	15	0.911**	0.641	Valid	AQ1	15	0.619*	0.514	Valid
AI2	15	0.762**	0.641	Valid	AQ2	15	0.684**	0.641	Valid
AI3	15	0.809**	0.641	Valid	AQ3	15	0.655**	0.641	Valid
AI4	15	0.811**	0.641	Valid	AQ4	15	0.712**	0.641	Valid
AI5	15	0.737**	0.641	Valid	AQ5	15	0.536*	0.514	Valid
AI6	15	0.774**	0.641	Valid	AQ6	15	0.738*	0.641	Valid
Documentation					Professional competence				
Code	Obs.	r calculated	r table	Remark	Code	Obs.	r calculated	r table	Remark
D1	15	0.735**	0.641	Valid	PC1	15	0.741**	0.641	Valid
D2	15	0.534*	0.514	Valid	PC2	15	0.697**	0.641	Valid
D3	15	0.652**	0.641	Valid	PC3	15	0.747**	0.641	Valid
D4	15	0.697**	0.641	Valid	PC4	15	0.697**	0.641	Valid
D5	15	0.811**	0.641	Valid	PC5	15	0.634*	0.514	Valid
Information Asymmetry					Audit evidence				
Code	Obs.	r calculated	r table	Remark	Code	Obs.	r calculated	r table	Remark
IA1	15	0.570*	0.514	Valid	AE1	15	0.725**	0.641	Valid
IA2	15	0.806**	0.641	Valid	AE2	15	0.664**	0.641	Valid
IA3	15	0.750**	0.641	Valid	AE3	15	0.690**	0.641	Valid
IA4	15	0.849**	0.641	Valid	AE4	15	0.698**	0.641	Valid
IA5	15	0.723**	0.641	Valid	AE5	15	0.603*	0.514	Valid
IA6	15	0.691**	0.641	Valid	AE6	15	0.719**	0.641	Valid

*Source: SPSS 20*

*Note: \*\* and \* are significant at 1% and 5%, respectively.*

#### Reliability test result

The results of reliability test show a Cronbach alpha value  $>0.7$ , stating that all of the variables are reliable.

**Table 5: Reliability test result**

Variable	No. of item	Cronbach's Alpha
Audit Evidence	6	0.762
Audit quality	6	0.714
Information asymmetry	6	0.831
Professional competence	5	0.735
Documentation	5	0.72
Auditor independence	6	0.869

*Source: SPSS 20*

**Model Diagnostic Test**  
**Multi-collinearity Test**

The variance inflation factor (VIF) for all independent variables was less than 10, as shown in Table 6. Therefore, it can be concluded that there is multicollinearity problem between the independent variables in the model, or there is no correlation across independent variables.

**Table 6: Multicollinearity test**

variable	Collinearity Statistics	
	Tolerance	VIF
Auditor Experience	0.86	1.163
Auditor Independence	0.825	1.212
Documentation	0.68	1.47
Professional Competence	0.793	1.261
Information Asymmetry	0.657	1.522
Audit Evidence	0.803	1.245

*Source: SPSS 20*

**Fitness of the model**

The likelihood ratio chi-square of 25.580 with a p-value < 0.0001 indicates that the entire model fits significantly. This shows the overall importance of the explanatory variables.

**Table 7: Fitness of the model**

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept	139.372			
Final	113.792	25.580	6	.000

*Source: SPSS 20*

**Parallel line assumption**

The null hypothesis of the parallel line assumption states that the location parameters (slope coefficients) are the same across response categories. As can be seen from table 8, the likelihood ratio chi-square for the parallel line assumption test is 10.647, with a p-value of 0.909. Because the probability value of the chi-square test is greater than 5%, we fail to reject the null hypothesis and confirm that the parameters should not change for different categories. Therefore, the parallel line assumption is not violated, and the use of ordinal logistic regression is appropriate

**Table 8: Parallel line test**

Test of Parallel Lines				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	113.792			
General	103.146	10.647	18	.909

*Source: SPSS 20*

**Hypothesis Test**

In this study, statistical testing was performed by comparing the significance values of each variable. If the significance value was less than 5%, the hypothesis was accepted; if the significance value was higher than 5%, the hypothesis was rejected.



**Table 9: Hypothesis testing**

Variable	Coeff.	Std. Error	Wald	Sig.
IA	-2.093***	0.389	28.914	0.000
DOC	1.452***	0.406	12.786	0.000
Exp	.147***	0.052	8.041	0.005
AI	-.917***	0.32	8.239	0.004
PC	0.045	0.394	0.013	0.908
AE	0.662	0.434	2.329	0.127

Source: *SPSS 20*

From the above tables, the significance value of professional competence is 0.908, which is greater than 0.05, and therefore the first hypothesis of professional competence has no effect on audit quality. The second hypothesis is that auditor experience has a positive impact on audit quality since the significance value is 0.005, which is less than 0.05. Because the significance value is 0.127, greater than 0.05, the third hypothesis of audit evidence has no effect on audit quality. The fourth hypothesis is that information asymmetry significantly influences audit quality and has a negative effect on audit quality because the significance value is 0.000, which is less than 0.05. The fifth hypothesis of documentation significantly affects audit quality; the form of influence is positive because the significance value is 0.011, which is less 0.05. The sixth hypothesis states that auditor independence significantly affects audit quality. The influence is negative because the significance value is 0.004, which smaller than 0.05.

### Theoretical Findings

According to agency theory and monitoring hypothesis theory discussed in this literature, information asymmetry and auditor independence affect audit quality. Hence, the findings of this study show that what is theoretically obtainable applies to the factors affecting audit quality. Moreover, according to our findings, information asymmetry has the most significant influence on audit quality in Ethiopia.

### Empirical Findings

The regression coefficients of experience indicate a positive and significant association with audit quality, where every increase in one-unit of auditor experience will increase auditor's quality by 0.147 units 0.147 units. The results suggest that experienced auditors can easily detects material misstatement and fraud in the institution's financial statements. The outcome of this study is consistent with those of [21, 14, 30, 31, 24, 32]. However, some studies found a negative association between experience and audit quality, such as and [33, 22].

The coefficient of independence has a negative relationship with audit quality, where each increase in the one-unit in auditor's independence decreases the quality of the audit by 0.917 units. This finding implies that auditor's independence negatively and significantly reduces audit quality. The lack of independence of the external auditor is one of the main reasons for a failed auditing process [21]. Furthermore, the results were supported by (James, 2014) and [23, 27]. Similarly, (Qawqzeh et al., 2018) stated that the long relationship between the auditor and his client reduces the auditor's independence and negatively affects audit quality[34]. On the other hand, and confirm a positive correlation between independence and audit quality [35, 36].

The estimated coefficient of documentation is positive and significant. In each one-unit increase in the availability, timeliness and neatness of documents increase the quality of the audit by 1.452 units. Similarity, the effects of documentation are positive and significant without controlling variables. Institutions that properly keep their documents may have a chance of obtaining a clean audit opinion that increases audit quality. This result is consistent with (Sutaryo et al., 2020) who found a positive association between documentation and audit quality.

This study fund a significant negative association between information asymmetry and audit quality. Each one-unit increase in information asymmetry decreases audit quality by 2.093 units. This implies that high information asymmetry reduces audit quality. This finding is similar to [12, 37, 38]. Furthermore, an increase in audit service quality leads to decreasing challenges regarding the separation of ownership and management, including agency costs and information asymmetry [39]. Also, concluded that information asymmetry has a greater impact on audit quality. However, this result is inconsistent with who find a positive association between information asymmetry and audit quality [40, 41].

The empirical results of this study find a positive correlation between professional competence and audit quality. This finding is similar to those [30, 14, 42, 9, 16, 15].

**Table 10: The empirical result without controlling variables**

	Coeff.	Std. Error	Wald	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
IA	-1.885***	.346	29.70	.000	-2.563	-1.207
DOC	.838**	.356	5.54	.019	.140	1.536

Source: SPSS 20

Note: \*\*\* and \*\* are significant at 1% and 5%, respectively

**Table 11: The empirical result with controlling variables**

		Coeff.	Std. Error	Wald	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Threshold	[AQ = 1.00]	-6.624	2.135	9.624	0.002	-10.809	-2.439
	[AQ = 2.00]	-3.639	2.107	2.984	0.084	-7.768	0.49
	[AQ = 3.00]	-1.355	2.072	0.428	0.513	-5.417	2.706
	[AQ = 4.00]	2.943	2.096	1.971	0.16	-1.166	7.052
Variable	IA	-2.093***	0.389	28.914	0.000	-2.856	-1.33
	DOC	1.452***	0.406	12.786	0.000	0.656	2.248
	Exp	.147***	0.052	8.041	0.005	0.046	0.249
	AI	-.917***	0.32	8.239	0.004	-1.544	-0.291
	PC	0.045	0.394	0.013	0.908	-0.728	0.818
	AE	0.662	0.434	2.329	0.127	-0.188	1.512

Source: SPSS 20

Note: \*\*\* shows a significant level at 1%

### Conclusion and Recommendation

This study examines the effects of information asymmetry and documentation on audit quality in Ethiopia. In addition to information asymmetry and documentation, this study investigates the effects of auditor independence, audit evidence, professional competence, and experience on audit quality as controlling variables. Ordered logistic regression with cumulative probabilities was employed to identify the effect of each explanatory variable on the dependent variable. According to the parallel line test, the application of ordered logistic regression was appropriate for this study.

The results of this study indicates that information asymmetry and auditor independence negatively and significantly influence audit quality. This may imply that a high level of information asymmetry and low level of independence influence audit quality. On the other hand, documentation and experience positively and significantly affect the quality of the auditing in the study area. Similarly, the signs of professional competence and audit evidence were positive, but the effect is insignificant. Based on the outcomes of this study, we recommend that auditee manager to establish strong internal controls and provide accurate data to detect information asymmetry. Further, we recommend that, institutions maintain auditor independence and provide the necessary documents before the auditor is out for fieldwork. In addition, we recommend that, auditors to improve their professional competence, and experience through continuous training and education. Finally, having

multiple and relevant sources of audit evidence is a way to detect errors and fraud in financial statements, which in turn increases audit quality.

### Contribution of the study

Auditing is one of the mechanisms for controlling public resources from unauthorized use and theft through independent investigations by external parties. The outcomes of this study will benefits other scholars and researchers by adding to the existing literature on the effects of information asymmetry, documentation, auditor independence, audit evidence, professional competence, and auditor experience on audit quality. Apart from previous studies in Ethiopia, this study utilized only specific variables, and it is hoped that the authority will find it helpful in analyzing the effects of information asymmetry, documentation, auditor independence, audit evidence, professional competence, and auditor experience on audit quality, thereby encouraging improvements in audit quality to minimize bad audit outcomes. The completion of this study will assist researchers in obtaining hands on processing skills for future research and data analysis. This proficiency will allow researchers to handle related work with considerable accuracy and expertise.

### Suggestions for Further Studies

A follow-up study should be conducted to improve the findings of present the study. Instead of focusing on Ethiopia, researchers suggest that more research should be conducted in other countries.

In the future, researchers may incorporate moderator issues into new research models in the upcoming period. Other factors that influence audit quality in public institutions in Ethiopia, such as corruption, political stability, rule of law auditor ethics, board independence and motivation, may be considered in future studies.

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