Efficiency of External Audit Engagement and Its Determinants in Ethiopian Share Companies

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Abstract
The main purpose of this study is to examine the efficiency of external audit engagement and its determinants in Ethiopian share companies registered by the Federal Office of Auditor. Senior external auditors and the supervisory auditors are the source of the necessary data to the researchers and administered questionnaires and interviews have used to collect the data. Audit firms which provide services for share companies during the investigation of this study were 27 out of 65 audit firms. From each 27 purposively selected audit firms, a proportional number of senior auditors were selected based on their experience in auditing. Besides, the objective of this study is to examine the effects of internal control system, firm size, organizational independence, auditors' qualification and proficiency, audit fees and auditors' reputation on the efficiency of external audit engagement on share companies. The independent variables were measured using a 5-point Likert- scale so that the subsequent data is agreeable to statistical analyses in testing the research hypotheses. According to the regression outputs the internal control system, organizational independence, auditors' qualification and proficiency, and audit fee has positive and significant effect on the efficiency of external audit engagement on share companies. The rest two variables were positively related to the efficiency of external audit engagement but their contribution to the external audit engagement was statistically not significance. The external audit firms should understand that the contributions of these variables were jointly significant to identify any noncompliance activities in their clients particularly share companies thus, the external audit firms should provide a vital monitoring role to assure the quality of financial reporting and that will create a road for the efficiency of external audit engagement.

Keywords: *Efficiency of external audit engagement, External audit firms, Share companies*

1. BACKGROUND OF THE STUDY

In a decision-making process, decision makers rely upon information, financial statements, as prepared and presented by the management of an entity. The possibility that the information upon decided on is inaccurate is called the 'information risk'. In connection to this, Elder (2010) state that the most common way for users to obtain reliable information (reducing the information risk) is to have an independent audit performed. To enhance the degree of confidence of the intended users of the financial statements, a financial statement audit will be conducted by external auditors. Thus, decision makers use the audited information on the assumption that it is reasonably complete, accurate, and unbiased.

More recent times the Global Financial Crisis has understood policy makers once again concentrate attention on the significance of an effective audit role as a key element in effective capital markets and try to identify key drivers of audit efficiency. For example, in the US the Advisory Committee on the Auditing Profession (2008) was organized to deliver advice to the US Treasury Department on the auditing occupation. Likewise, in the UK the Financial Reporting Council released The Audit Quality Framework (2008), correspondingly in Australia; The Treasury released Audit Quality in Australia– a Strategic Review (2010). These soundings and regulatory modifications make it pure that there has been substantial frustration with the effectiveness of corporate governance, the efficiency of the audit process and the starring role of auditors and auditing. In reaction, regulators and the accounting professionals have engaged a number of policy actions to develop audit efficiency in both fact and appearance. Current examples include the SEC's recommended prohibition on audit firms undertaking non-audit services (NAS) in 2000 (SEC 2000) and the quick approval of SOX resulting Enron's breakdown (Francis 2004). For instance, while audits are currently mandatory by law, previous empirical evidence in audit literature advocates that presence of financial statement auditing was prevalent long before legal requirements. Specifically, in the U.S. in 1926 before any audit regulation, independent auditors checked as much as 82% of the companies on the New York Stock Exchange (Benston, 1969; Chow, 1982). This observation evidently shows the fundamental significance of auditing as economical external governance mechanism giving protection for stakeholders or users of financial statements.

However, these policy results have been made in spite of the fact that the empirical signal regarding factors that can improve or weaken audit efficiency is questionable and indeterminate. However, research into insights of audit efficiency is vital because it determines the reliability of the audit report (Shockley 1981), and that have the potential to rust public confidence in the truthfulness of the financial reporting system (Pany and Reckers 1988). Accordingly, attaining an understanding of factors that affect insights of audit efficiency is significant because it can help regulators and the accounting professionals to articulate policy grounded on empirical evidence rather than on a priori expectations (Schelluch and Thorpe 1995). This signal is also worthwhile in safeguarding that policies and practices sustenance confidence and credibility in the audit task by incorporating features found to be comparatively more important in perceptions of audit efficiency.

Indeed, in the long run existence of businesses, the efficiency of external audit engagement has a significant role in various sound decisions made by external users using financial statements prepared by those businesses. Thus, ineffective and inefficient employment of external audit engagements in the sector will create different sorts of problems. Some studies are taken in different parts of the world; Naghashiyan (1993) in his article assessed the effect of internal auditor's performance quality on execution time of external audit, Rezaee (1991) in his article scrutinize the impact of internal audit on external audit practice, Pezeshkzade (1391) in his article investigated the dependence of external auditors on various types of internal audit, Samavati (1379) in her research investigated the practice of analytical technique, definition value and usage of financial external audit built on small and medium organizations in Iran. Some other studies also focus on audit quality on Small and medium-sized enterprises (Umar, 2011), audit effectiveness on Ethiopian public sector (Dessalegn, 2007), and the usefulness of accounting comparability for audit engagement (Hongbo, 2012). Some other studies were also taken place in the different area of audit practices; however, the problem of efficient employment of external auditing on share companies remains an open question. Thus, the study attempted to examine the efficiency of external audit engagement on share companies of Ethiopia. Consequently, the study delivers empirical evidence on the features that are supposed to affect audit efficiency, specifically the relative importance of audit team and audit-firm attributes in affecting audit efficiency as perceived by the receiver of audit services. Examining audit engagement efficiency in Ethiopian business environment is grounded on the significance of reaching a highly efficient auditing process in Ethiopian share companies. One of the significant sector or business organization in Ethiopia is audit firms. This business organization is vital to the Ethiopian economy by asserting economic events in share companies. Consequently, one can argue that auditors are vitally important to the audit sector that provides value for share companies.

2. STATEMENT OF THE PROBLEM

Auditing is a methodical process of objectively finding and assessing evidence concerning statements about economic activities and events to determine the degree of correspondence between statements and established standards and communicating the outcomes to interested parties. Auditing evolved to cater the needs of different users, for instance, it provides unbiased facts regarding actual/potential risks, and effectiveness and inefficiencies of systems and processes for the decision making of management (Russell, 2005). External audit particularly facilitates the implementation of risk management as well as it contributes to the appropriateness of procedures and operations of the audited body (Cohen & Sayag, 2010; Arena & Azzone, 2009; Dittenhofer, 2001).

Hameed (1995), found that the most significant factors that influence auditing efficiency are auditor's experience, honesty, and the knowledge in accounting and auditing standards. Alqam and Alrajabi (1997), in their study in public Jordanian companies, found that auditor rotation is affected by three groups; firm level factors such as management replacement, auditing office particular factors such auditing quality, and factors linked to international auditing principles and auditing ethics. Wong (2001), found that the usage of computer aided audit procedures instead of old-fashioned data mining gives to the achievement of auditing task. Brown, et al. (2006), found that auditor independence does not, by itself, significantly damage the quality of financial information. Khasharmeh, (2002) found that the auditor must be carefully chosen objectively and not grounded on the inter-relationships among the board of directors and the auditor. Preceding researchers recognized a positive association between audit efficiency and some factors like internal control. Further studies have engaged more straight actions, such as the results of quality control, firm scope, audit fees, auditor independence, auditor standing, industry specialty, auditor experiences, and ability.

In African countries like Nigeria auditing is not yet well developed and current reports of doubtful accounting practices engaged by some businesses in Nigeria have carried the matter of audit efficiency to the forefront, and place the auditing profession in a solemn credibility crunch (Otusanya & Lauwo, 2010). A study results made in Nigeria by Uchenna (2011) display that economic reliance on the client, delivery of non-audit services to the client, and rivalry in the audit market are the main factors that weakens the perception of audit efficiency and that this is regular among both sets of respondents. On the other hand, minor audit fees, the risk of a penalty against the auditor, and minor audit fees as a fraction of the firm's total revenues are supposed to improve audit efficiency. A study result made in Kenya by Guandaru (2014) witnessed that audit committees effectiveness plays a substantial role in improving audit efficiency. Organizations may, therefore, reflect constructing capability of the audit committees so as to develop external audit efficiency. The study found out that there is a statistically significant causative link among the level of external auditor's abilities and audit efficiency in Kenya.

Like other African countries, even though the Ethiopian business setting has a long way to drive before it encounters the high standards of the western corporate environments, the toddler private businesses in the economy still necessitate accountants and auditors to accomplish at least portion of the above-mentioned tasks. Here it should be considered that the accountants' obligation also involves an even greater accountability. Some studies are taken in different parts of the world; Naghashiyan (1393) in his article assessed the effect of internal auditor's performance quality on execution time of external audit, Rezaee (1991) in his article scrutinize the impact of internal audit on external audit practice, Pezeshkzade (1991) in his article investigated the dependence of external auditors on various types of internal audit, Samavati (1379) in her research investigated the practice of analytical technique, definition value and usage of financial external audit built on small and medium organizations in Iran. Some other studies also focus on audit quality on Small and medium-sized enterprises (Umar, 2011), audit effectiveness on Ethiopian public sector (Dessalegn, 2007), and the usefulness of accounting comparability for audit engagement (Hongbo, 2012). Some other studies were also taken place in the different area of audit practices; however, the problem of efficient employment of external audit engagement on share companies remains an open question. With regard to this, the researchers attempted to examine the efficiency of external audit engagement and its determinants on Ethiopian share companies which receive an external auditing service from their perspective external audit firm. Specifically, the research considered the following determinants for the efficiency of external audit engagements: internal control, firm size, auditor's fee, organizational independence, auditor qualifications and proficiency, and auditor's reputation.

3. RESEARCH OBJECTIVES

The general objective of the study was to examine the efficiency of external audit engagement and its determinants on Ethiopian share companies. Beyond the general objective of the study, there were some specific objectives which are helpful in order to achieve it. Those specific objectives were;

1. To examine the effect of internal control system on efficiency of external audit engagement.
2. To examine the effect of audit firm size on efficiency of external audit engagement.
3. To examine the effect of organizational independence of external auditors on efficiency of external audit engagement.
4. To examine the effect of external auditors qualification and proficiency on efficiency of external audit engagement.

5. To examine the effect of audit fee on efficiency of external audit engagement
6. To examine the effect of external auditor's reputation on efficiency of external audit engagement.

4. LITERATURE REVIEW

The primary reason for the development of auditing profession is the need of attest function. That is the need of independent assurance of the reliability, credibility, and quality of information. When certified public accountants attest to information they issue a report with a conclusion about the reliability of a written assertion by management. In the case of financial statement audits, the audit report, for the most part, contains an opinion regarding whether management's financial statements conform to generally accepted accounting principles (GAAP). Auditors are also being asked to assume more responsibility for attesting to compliance with laws and regulations, and to the effectiveness and internal controls (Eliffson, 2006). Audit efficiency is achieved by a procedure of identifying and controlling the actions needed to attain the quality objectives of a Supreme Audit Institution. The following paragraphs review different literatures on examining the effects of internal control system, firm size, organizational independence, auditors' qualification and proficiency, audit fees, and auditors' reputation on the efficiency of external audit engagement.

The trouble in measuring audit efficiency has directed many researchers to use audit firm size as a proxy. Large audit firms are presumed to accomplish more dominant assessments. As a result, larger audit firms are more probable to be related with more accurate information than are smaller audit firms, all else being the same (Beatty, 1989; Titman and Trueman, 1986). Investigative research has proposed that audit firm size and audit efficiency are positively related. For example, De Angeio (1981), suggests that larger firms deliver higher-quality audits since larger audit firms have fewer inducements to compromise their standards to ensure the preservation of clients in contrast with smaller firms. Likewise, Dopuch and Simunic (1982), debate that audit efficiency is a function of the amount and degree of audit processes accomplished by the auditor and that larger firms have more capitals with which to perform assessments, Moore and Scott (1989), reveal systematically that audit firm size and the magnitude of audit work are positively related. In their study the size of external audit firms was measured in terms of the probable to be related with more accurate information; inducements to compromise standards to ensure the preservation of clients, and amount and degree of audit processes accomplished by the auditor and capitals with which to perform assessments.

Furthermore, Krishnan and Schauer (2000), studied the relationship between auditor size and audit efficiency for a sample of not-for-profit organizations. Their audit efficiency measure was built on the entity's obedience with GAAP reporting requirements. Audit firms were alienated into three groups: Big Six, large non-Big Six and small non-Big Six. They initiate that obedience improved as one progressed from the small non-Big Six to large non-Big Six and from the large non-Big Six to Big Six. They also verified the auditor size–audit efficiency linkage with a more continuous assessment of audit firm size: the number of professionals working for audit firm and this test further confirmed their outcome.

An independent audit committee improves the impartiality of external auditor, and make sure that auditor is free from management impact. The committee can perform informal and private summits without the attendance of the company's management to inspire the external auditor to be clear on valuable matters at an early phase. The best-recognized explanation of independence in academic literature is De Angelo (1981), the uncertain likelihood of reporting a discovered breach; others comprise an outlook/state of mind Schuetze (1994); a function of acting with the truthfulness and honesty being vital Magill and Previts (1991). Geiger and Raghunandan (2002), proposed that auditors with longer tenancy are more probable to be independent, and are steady with Myers et al. (2003) in that elongated auditor tenancy is related to the higher worth of reported earnings. This implies that auditors with higher audit efficiency (i.e., auditors independent) are more probable to fight back client management forces than auditors with lower audit efficiency. The organizational independence were measured in terms of interference and influence of auditing activities; auditors freedom to decide the scope, time and extent of auditing procedures based on auditing standards; auditors access to necessary documents, information and data about the organization/sector for their audit work; auditors freedom to include any audit finding in their audit work and report directly to responsible body; and auditors efficiency to probably fight back client management forces. These studies were observed auditor independence in auditor-client cooperation over financial reporting matters, and whether highly efficient auditors are more likely than least efficient auditors to fight back client management forces in auditor-client cooperation over financial reporting matters. Currently, financial disgraces at firms such as Enron and WorldCom have worn out public confidence in the independence of the accounting profession and the efficiency of audit services.

The focal drive of the audit is to assure outsiders that the financial statements are free from valuable misstatements, the significance of an audit be contingent on the outsiders' ex-ante insight of the likelihood that the auditor will ascertain the ruptures or mistakes in the reporting system and on the likelihood that the auditor will report the revealed ruptures or mistakes (De Angelo, 1981). Many investigate discover that there is a positive relationship between audit efficiency and the auditor qualifications and proficiency. For example, Sundgren (1998) initiate that non-certified auditors are less probable to adapt the audit report, which advocates that non-qualified auditors deliver lower assurance than qualified auditors. Simunic and Stein (1987) proposed that though auditor moral hazard has received raid consideration in the academic literature, it is supposed to be predominantly serious in the government setting. The auditors' qualification and proficiency were measured in terms of sufficient skilled external auditor and certification in auditing; audit team members responsive to clients' requests and their consistency; on time completion of audit procedures and evidence collections; audit team members sufficient industry experience and understanding of clients' business and its issues; and level of strength of audit team to works together effectively. In this atmosphere, the likelihoods of client financial failure and resultant ex-post exposure of lower-than-implied audit efficiency are slight. Thus, there is a need for alternative mechanisms for enhancing the credibility of the audit. Mutually the General Accounting Office GAO (1987) and the American Institute of Certified Public Accountants AICPA (1987) sight proper audit attaining practices as a tool for safeguarding that the contracted audit efficiency is in fact provided.

5. RESEARCH DESIGN AND METHODOLOGY

The study was attempted to contribute to the knowledge base by examining the efficiency of external audit engagement and its determinants on Ethiopian share companies. To reach to the purpose, the researchers use mainly explanatory/causal type of research design and in some cases descriptive type. The study used both quantitative and qualitative research approaches. This research use primary data mainly through the employment of questionnaires and interviews which were administered to external audit firms. There are a total of about 65 private audit firms operate in Ethiopia, registered by the Federal Office of

Auditor General. After identifying those audit firms which have share companies as a client, they were given a proportional number of respondents for each. From each 27 purposively selected audit firms a proportional number of senior auditors were selected to provide a response for the study. Efficiency of External Audit Engagement (AUDITEF) is the dependent variable to measure the efficiency of external audit engagement in the study and the independent variables are internal control system (INTCSYS), firm size (FIRMSIZ), organization independence (ORGINDP), auditor's qualification and proficiency (AUDTRQP), audit fees (AUDITFE), and auditor's reputation (ADTRREP). Multiple linear regression were used in order to determine and interpret the significance and direction of the coefficients of independent variables.

Model: Multiple linear regression:

$$\mathbf{AUDITEF} = \beta_0 + \beta_1\mathbf{INTCSYS} + \beta_2\mathbf{FIRMSIZ} + \beta_3\mathbf{ORGINDP} + \beta_4\mathbf{AUDTRQP} + \beta_5\mathbf{AUDTFEE} + \beta_6\mathbf{ADTRREP} + \varepsilon$$

Where, AUDITEF denotes efficiency of external audit engagement which was measured using Chartered Professional Accountants (CPA) efficiency measures in Canada related to assessment of external auditing practice in Canada, 2014, such as auditor's ability to identify noncompliance activities, provision of value for client companies, process control abilities, efficient determination of audit scope and nature, adequacy of firm requirements, fulfilment of auditors requirements, on time and proper payment of audit remunerations, and quality provision of audit service.

6. RESULT AND DISCUSSION

This section presents the results and discussions of research and the following tables are showing the regression results which are obtained by regressing the efficiency of external audit engagement (AUDITEF) in identifying noncompliance activities and the external auditors ability in adding value for share companies and their firm on the internal control system (INTCSYS), firm size (FIRMSIZ), organizational independence (ORGINDP), auditors' qualification and proficiency (AUDTRQP), audit fees (AUDITFE), and auditors' reputation (ADTRREP) and the correlation matrix of coefficients of regress model.

Table 1 below depicts the correlation between the independent variables and the result shows the acceptable reliability of the research variables in which, the correlation among predictors were not high (less than 0.80) indicates there is no multicollinearity problem among variables.

Table 1: Correlation matrix of coefficients of regress model

Variables	Log_ICL	Log_FSZ	Log_OIP	Log_ARQ	Log_AFE	Log_ARN
Log_INTCSYS	1.0000					
Log_FIRMSIZ	0.0913	1.0000				
Log_ORGINDP	0.5465	0.1459	1.0000			
Log_AUDTRQP	0.4748	- 0.1333	0.4024	1.0000		
Log_AUDTFEE	0.7686	0.2363	0.5480	0.4084	1.0000	
Log_ADTRREP	0.3708	- 0.0231	0.3094	0.3884	0.3843	1.0000

Table 2: Ordinary Least Square (OLS) regression result for the efficiency of external audit engagement

Number of Obs. = 81 F(6, 74) = 36.05	R^2 = 0.7451	Adjusted R^2 = 0.7244 Prob > F = 0.0000		
Independent Variables	**Coefficients**	**Standard Error**	**t**	**p > t**
Internal Control System	.2894608	.1244760	2.33	0.023
Firm Size	.0579413	.0505423	1.15	0.255
Organizational Independence	.4421521	.1003162	4.41	0.000
Auditors' Qualification and Proficiency	.3118322	.0807671	3.86	0.000
Audit Fee	.2120155	.1028196	2.06	0.043
Auditors' Reputation	.0517586	.0566508	0.91	0.364
Constant	-.2258041	.0644875	-3.50	0.001

According to Table 2 above, the overall contribution of internal control system, firm size, organizational independence, auditors' qualification and proficiency, audit fees, and auditors' reputation for the efficiency of external audit engagement accounted for 74.51% (R^2 = 0.7451) of the variation in the efficiency of external audit engagement, the remaining 25.49% are other variables not included in this investigation. The following hypotheses test were made based on the regression outcomes of the external audit efficiency obtained from the regression output.

H0: Effective internal control system has no positive and significant effect on efficiency of external audit engagement

The first hypothesis of this research posed that the efficiency of external audit engagement is directly related to the extent of the internal control system strength. Table 2 indicating the strongly correlated relationship between the efficiency of external audit engagement and the internal control system, the positive beta sign and a statistically significant result of the internal control system associated with efficiency of external audit engagement (β = .2894608, t = 2.33, and $p<0.05$) support the proposed null hypothesis is rejected.

The result of the study was consistent with the previous auditing research works. Since an entity's internal control is in the purview of its audit committee (Krishnan, 2005), the link between audit committee efficiency, external audit effectiveness and internal control softness is a matter to be studied. The study finds that the internal control system was the critical determinants of audit committee effectiveness and by then to external audit effectiveness through providing a vital monitoring role to assure the quality of financial reporting and corporate responsibility and that will create a road for external audit efficiency. Similarly, Carcello and Neal (2000) in their research finding reveals that level and nature of review procedures, the approach to audit judgments and issues, independent quality control reviews and its approach to risk, critical assessment of the internal control mechanisms of clients, and audit teams and audit committees performance of responsibilities in line with the agreed standards can contribute to the effectiveness of external audit works.

H0: Size of external audit firms has no positive and significant effect on the external audit efficiency.

The second hypothesis of this research revealed that there was a direct relationship between the size of external audit firms and the efficiency of external audit engagement in the way of identifying noncompliance activities. This null hypothesis was supported by the regression outcome, since the regression results shows that statistically insignificant contribution related to efficiency of external audit engagement at ($p<0.05$). As revealed in Table 2 above the coefficient of firm size (β = .0579413) were positively related but statistically (t= 1.15 and $p>0.05$) not significantly related to the efficiency of external audit engagement by identifying noncompliance activities in share companies.

The results of the regression are consistent with some of the previous studies only by the direction of the relationship. Larger audit firms are more probable to be related with more accurate information than are smaller audit firms, all else being the same (Beatty, 1989; Titman and Trueman, 1986). Likewise, Dopuch and Simunic (1982), debate that audit efficiency is a function of the amount and degree of audit processes accomplished by the auditor and that larger firms have more capitals with which to perform assessments, Moore and Scott (1989), reveal systematically that audit firm size and the magnitude of audit work are positively related. However, the regression results of this study show an insignificant contribution of the variable.

H0: Organizational independence has no positive and significant effect on efficiency of external audit engagement

The third hypothesis of this research which was supposed to be the determinants for the efficiency of external audit engagement is the organizational independence in which external audit engagement was conducted. As shown in Table 2 above the regression outputs does not support this null hypothesis with a high statistically significant correlation with the level of significance ($p<0.01$) and the positively related coefficient (β = .4421521, t= 4.41, and $p<0.05$) contributes to the external audit efficiency. This indicates the significant impacts of organizational independence through increase the efficiency of external audit engagement to identify the noncompliance activities of share companies.

Furthermore, the outcome of this hypothesis was consistent with the finding of prior audit researchers. Geiger and Raghunandan (2002), proposed that auditors with longer tenancy are more probable to be independent, and are steady with Myers et al. (2003) in that elongated auditor tenancy is related to the higher worth of reported earnings. This implies that auditors with higher audit efficiency (i.e., auditors independent) are more probable to fight back client management forces than auditors with lower audit efficiency. These studies were observed auditor independence in auditor-client cooperation over financial reporting matters, and whether highly efficient auditors are more likely than least efficient auditors to fight back client management forces in auditor-client cooperation over financial reporting matters. Cohen, & Sayag (2010), they find that the more organizational independence to the external auditors plays the vital role in assurance of efficiency of external audit engagement by freely access of necessary documents, information and data about the organization for audit work, and can provide audit finding /report/ freely and directly to the responsible body, and this all supports the efficiency of external audit engagement on share companies.

H0: External auditors' qualification and proficiency has no positive and significant effect on efficiency of external audit engagement.

The fourth hypothesis of this research reveals that the presence of qualified and proficient external audit staff in external audit firms was also supposed to be the determinants for the efficiency of external audit engagement. As displayed in Table 2 above, the regression result does not support this hypothesis at ($P<0.01$) level of significant and with a positively related beta coefficient ($\beta = .3118322$, $t= 3.86$, and $p<0.05$).

The outcome of the study was consistent with the prior auditing research findings. Sundgren (1998) initiate that non-certified auditors are less probable to adapt the audit report, which advocates that non-qualified auditors deliver lower assurance than qualified auditors. Simunic and Stein (1987) proposed that though auditor moral hazard has received raid consideration in the academic literature, it is supposed to be predominantly serious in the government setting. In their study the auditors' qualification and proficiency were measured in terms of sufficient skilled external auditor and certification in auditing; audit team members responsive to clients' requests and their consistency; on time completion of audit procedures and evidence collections; audit team members sufficient industry experience and understanding of clients' business and its issues; and level of strength of audit team to works together effectively. Furthermore, mutually the General Accounting Office GAO (1987) and the American Institute of Certified Public Accountants AICPA (1987) sight proper audit attaining practices as a tool for safeguarding that the contracted audit efficiency is in fact provided.

H0: Audit Fee has no positive and significant effect on efficiency of external audit engagement.

The fifth hypothesis of this research posed that the efficiency of external audit engagement is affected by the charges that the companies pay to the external auditors against for the audit services. Table 2 above demonstrating a highly correlated relationship between the external audit efficiency and the audit fee, the positive beta sign and a statistically significant result of audit fee associated with efficiency of external audit engagement ($\beta = .2120155$, $t = 2.06$, and $p<0.05$) support the proposed hypothesis is rejected.

The outcome of the study was consistent with the previous auditing research works. Several writers debated that managers and entrepreneurs are ready to pay higher audit fees to obtain what are seeming to be higher audit efficiency. In their argument of Kinney and Libby (2002), proposed that the danger to auditor independence could be as robust when the audit fee is huge. Numerous investigations that have empirically studied the association between audit efficiency and audit fee; Francis and Simon (1987), thinking that audit services are quality-differentiated and that in a competitive market, quality variances are replicated in charges. However, since audit fees have a number of determining factors, they are a raucous proxy for efficiency. A preceding study which studies whether, in an Australian situation, the presence of an audit committee, audit committee features and the use of external audit are related with a greater level of audit fees determines that a higher audit fee indicates higher audit efficiency (Francis, 2004). The study was measured the audit fee in terms of the appropriateness of the audit fee given the scope of the external audit; danger to auditor independence; and discussion made for the level of outstanding fees with the audit committee and payment of such fees before the report is issued.

H0: External auditor's reputation has no positive and significant effect on efficiency of external audit engagement.

The sixth hypothesis of this research revealed that there was a direct relationship between the external auditor's reputation and the efficiency of external audit engagement in the way of identifying noncompliance activities. This hypothesis was supported by the regression outcome, since the regression, outcomes demonstrates that statistically insignificant contribution related to the external audit efficiency at ($p<0.05$). As presented in Table 2 above the coefficient of external auditor's reputation (β = .0517586) were positively related but statistically ($t= 0.91$and $p>0.05$) not significantly related to the efficiency of external audit engagement by identifying noncompliance activities in share companies.

The results of the regression are consistent with some of the previous studies only by the direction of the relationship. Choi and Jeter (1992) revealed a narrowed stock market reaction to earnings reports when a qualified opinion is handed out. If auditor quality is endangered, the audit report delivers a lower level of assertion to the users of financial reports that the financial reports imitate the firm's business actuality and a higher likelihood that its earnings and book values have been inflated lacking being identified by its auditor. Accordingly, they studied Arthur Andersen's clients' stock market influence adjacent dates on which Andersen's audit processes and independence were under severe examination as well as Andersen's clients' auditor shift dates. The external auditor's reputation were measured in terms of audit job and the likelihood that audit outcomes will depend on it; the auditor's reputation contribution to the perceived and definite levels of efficiency replicated by the auditor's report; and the level of assertion to the users of financial reports that the financial reports imitate the firm's business actuality. A high-quality job momentously raises the likelihood that audit outcomes will depend on and suggested enhancements will be extremely considered and applied. However, the regression results of this study show an insignificant contribution of the variable.

Generally, the results indicates that audit firms with strong internal control system, greater organizational independence, high and appropriate auditors' qualification and proficiency, and proper audit fee are more likely to have efficiency of external audit engagement and audit firms should give more emphasis in their external audit function while making an audit engagement on Ethiopian share companies. Moreover, as observed from the above table 2, even if the result obtained in the estimation is insignificant, there is a positive relationship between firm size (FIRMSIZ) and efficiency of external audit engagement, and similarly between auditors' reputation (ADTRREP) and efficiency of external audit engagement. As a result, they have no significant contribution for the predicted dependent variable which is efficiency of external audit engagement (AUDITEF) on share companies since they have a significance value of greater than 5%.

7. CONCLUSIONS

According to the OLS regression outputs, all these predictors were positively contributed for the efficacy of external audit engagement on Ethiopian share companies. Therefore, audit firms should give emphasis to use these determinant variables to make their service delivery efficient, effective and economical throughout their clients particularly share companies. Moreover, the internal control system, organizational independence, auditors' qualification and proficiency, and audit fee were the major determinants for the efficacy of external audit engagement on Ethiopian share companies. However, in the regression outputs the size of external audit firms and external auditors' reputation were not significantly important for the efficiency of external audit engagement on share companies as of the above four variables. Besides, by testing of the proposed hypotheses indicated relationships of these independent variables with the efficacy of external audit engagement the following conclusions were derived.

The efficiency of external audit engagement on share companies is increasing, when there were a strong internal control system, greater organizational independence, high and appropriate auditors' qualification and proficiency, and proper audit fee. The regression analysis (shown in Table 2) demonstrates very strong contributions of these variables to the efficiency of external audit engagement. Therefore, the overall effect of the internal control system, organizational independence, auditors' qualification and proficiency, and audit fee in external audit firms is very important for the efficiency of external audit engagement on share companies without neglecting the other two statistically insignificance variables (firm size and auditors' reputation), because they have a positive sign of beta and contribute for the 74.51% of the variances for the efficiency of external audit engagement on the OLS regression. Thus, ignoring these two variables may lead to declining the value for the efficiency of external audit engagement variance that was obtained from the collective contribution of the six independent variables.

In addition, the regression results also depict all the independent variables have a positive sign of coefficients (shown on table 2) with the efficiency of external audit engagement on share companies. However, the size of external audit firms and external auditors' reputation were statistically not significant enough at 5% significance level to contribute to the efficiency of external audit engagement on share companies, therefore this conclusion needs future research should think through for finding the impact of these variables on the efficiency of external audit engagement. The statistics revealed the data to be normal and reliable. Also, the assumptions needed to be fulfilled for OLS regression were tested: the data was found to be homoscedastic, free of autocorrelation, free of multi-collinearity, and normally distributed for the OLS regression.

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