

PERCEIVED THREATS AND SAFEGUARDS OF AUDITOR INDEPENDENCE

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The purpose of this study is to examine the perception of auditor independence among auditors, financial statement preparers and users. The study is motivated mainly by the recent regulatory changes and greater publicity regarding auditor independence.

Respondents perceive the economic dependence of audit partners on specific clients as the most threatening factor and the professional code of ethics as the most important safeguard of auditor independence. Respondents who are in top management, those who have an extensive formal knowledge of accounting, preparers of financial statements, and those with a total working experience of ten years or more have significantly different perceptions from the rest of the respondents in terms of their perception of the threats and safeguards of auditor independence. Comparisons with previous studies have shown changing perceptions. The findings of the study provide insights to the perception of auditor independence. They can help regulatory bodies in their pursuit to improve auditor independence.

Keywords: *auditor independence, threats, safeguards*

INTRODUCTION

Independence is a concept fundamental to the auditing profession. A major goal of the regulation of financial reporting is the assurance that financial reporting has integrity. Crucial to this goal is the role of the auditor. Further, the very essence of the auditor's attest function requires that he/she be independent and objective; this promotes the integrity of accounting information. Without independence, readers of financial statements would not be able to rely on the auditor's report no matter how competent the auditor is. However, it is not enough that the auditor be independent, it is important that the auditor be perceived to be independent as well (Stamp and Moonitz, 1978, p.48-52).

Since the general setting within which auditor independence perceptions are formed is subject to continual change, there is a need to constantly address new threat and safeguard factors and at the same time evaluate again the old factors (Beattie et al., 1999).

The study is motivated mainly by the following factors. The recent regulatory changes and greater publicity regarding auditor independence have a significant impact on auditor independence perception among the various users of financial statements (Beattie et al., 1999). One recent example of regulatory changes is the Securities and Exchange Commission's (SEC) Auditor Independence Requirement, which was released on 21st November 2000 to prevent conflicts of interest among audit firms that provided Non-Audit Services (NAS) to the same firms that they audit (SEC, 2000). Another important recent development is the collapse of Enron, a multinational firm that has filed the largest ever United States bankruptcy. Its auditor, Arthur Andersen, is facing a criminal charge, which highlighted the role of audit firms in projecting the financial condition of their audit clients (The Straits Times, 2002). It is thus important to know what the perceptions of the various users of financial statements are on factors that can safeguard or threaten auditor independence.

The basic questions addressed in this study are: 1) What are the most threatening and safeguarding factors of auditor independence as perceived by different interested parties?, 2) How do perceptions differ among the interested parties?, 3) What factors explain the differential perceptions?

The purpose of this study is to examine the perception of auditor independence among auditors, financial statement preparers and users. It attempts to investigate factors that threaten auditor independence and evaluates factors that safeguard auditor independence. It also examines whether the perception of auditor independence is affected by

differences in the background of respondents. It is hoped that this study will fill the gap in the existing auditor independence literature and contribute to a better understanding of the perception of auditor independence.

LITERATURE REVIEW

Recently, the International Federation of Accountants (IFAC, 2001) outlines in its Exposure Draft the interpretation of independence to be distinguished in two forms:

- a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that impair professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and
- b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude a firm's, or an assurance team member's integrity, objectivity or professional skepticism had been unacceptably impaired.

Auditors are expected to maintain a proper attitude in the planning of the audit programme, the performance of verification work, and the preparation of audit reports. However, auditors must also appear in public eyes as independent. This emphasis was outlined in the Arthur Young case (Schuetze, 1994, p.70) as follows: "It is therefore not enough that financial statements be accurate, the public must also perceive them as being accurate. Public faith in the reliability of a corporation's financial statements depends upon the public perception of the outside auditor as an independent professional". Independence in appearance has to do with the image of auditors. In particular, auditors and the auditing profession must avoid the appearance of lacking independence.

Auditor independence may be jeopardised by several factors and these have been discussed within the academic and auditing professions for decades. The IFAC has categorised threats on auditor independence into familiarity threats, self-interest threats, intimidation threats, self-review threats and advocacy threats. Familiarity threats occur when, by virtue of a close relationship with an auditor client, its directors, officers or employees, a firm or a member of the audit team becomes too sympathetic to the client's interests. Self-interest threats occur when a firm or a member of the audit team could benefit from a financial interest in or have other self-interest conflicts with an audit client.

Intimidation threats occur when a member of the audit team may be deterred from acting objectively and from exercising professional skepticism by threats, actual or perceived, from the directors, officers or employees of an audit client. Self-review threats occur when any judgment in a previous audit or non-audit engagement needs to be re-evaluated in reaching conclusions on the current audit engagement. Advocacy threats occur when a firm, or a member of the audit team, becomes an advocate for or against an audit client's position or opinion to the point that objectivity is, or is perceived to be, impaired. Other threats that have not been mentioned by the IFAC in its Exposure Draft include the flexibility of accounting standards. It has been argued that a weak regulatory environment will enable the auditors to switch to their client's preferred accounting treatment by taking advantage of the flexibility in accounting standards (Knapp, 1985; Magee & Tseng, 1990).

Although auditor independence is very hard to observe, it can be safeguarded by several factors. IFAC has outlined in its exposure draft three broad categories of safeguards. Safeguards created by the profession, legislation or regulation include imposing educational, training and experience requirements for entry into the profession, continuing existing education requirements, establishing professional standards and enforcing monitoring and disciplinary processes.

Safeguards within the audit client include methods where the audit client's management excludes members of the audit team from making managerial decisions for the entity. Other safeguards within the audit client are internal procedures to ensure objectivity in commissioning non-audit engagements and the corporate governance structure, such as an audit committee that provides appropriate oversight of and communications with the auditor. Safeguards within the audit firm's own systems and procedures can be classified into two categories: firm-wide safeguards and engagement-specific safeguards. Firm-wide safeguards involve establishing policies and procedures to monitor and implement the quality control of audit engagements, to prohibit individuals who are not part of the audit team from influencing the outcome of the audit engagement, and to empower staff to communicate with senior levels within the audit firm about any issues of independence and objectivity that concern them. Internal policies and procedures can also be implemented to monitor compliance with firm policies and procedures as they relate to independence and quality control. Engagement-specific safeguards involve the appointment of an additional professional accountant who is not a member of the audit team to carry out reviews of the work done or otherwise advice as

necessary, and consulting a third party such as a committee of independent directors and a professional regulatory body.

There are several other factors that can safeguard the independence of auditors but that are not mentioned by IFAC. Gul (1989) studied whether audit firm size played a significant part in promoting auditor independence and found that it constituted the most important factor. The size and status of an audit client also has some effect on the perceived independence of auditors. Although it cannot be shown conclusively (Gul, 1989), Beattie et al. (1999) provided some insight as to how the size and status of an audit client could be considered as one of the factors that could enhance or threaten auditor independence. Other potential safeguards that have not been discussed widely in the literature include periodic practice review of an audit firm by other audit firms, continuing professional education and stringent entry requirements for auditors. Other possible measures to safeguard independence are the internal audit function in the client firm and unlimited auditor liability under the partnership structure (Farmer et al., 1987). Applying a better monitoring system such as a professional code of ethics will help prevent audit partners from trying to evade quality control procedures within the audit firm (IFAC, 2001).

It has been highlighted in the literature that the most fundamental principle of perception is that it may differ across individuals or groups of individuals for the same object, symbol, event or person (Gibson et al., 1994). Perception among individuals or groups is different because it is influenced by various factors. Depending on the extent of these factors, different individuals or groups can have different perceptions. Some of the most relevant factors that influence an individual's perceptions include experience, educational background, work context and job function, needs and motivation, and group membership (Dessler 1984; Gibson et al., 1994).

Dessler (1984) suggested that different groups can have different perceptions of the same object. This is further supported by Farmer et al. (1987) and Beattie et al. (1999) who argued that various groups have differential perceptions of auditor independence. In particular, auditors were alleged to have become 'acculturated' to professional norms, which include independence. This is the reason the literature has indicated an existence of an audit expectation gap where auditors and the public hold different beliefs about auditors' duties and responsibilities and the messages conveyed by audit reports (e.g., Liggio, 1974; Humphrey et al., 1993).

Revsine (1991) documented evidence that different parties involved with financial reporting (e.g., managers, shareholders, auditors

and standard setters) can have different needs and motivation. For example, managers will try within their powers to show the company in a healthy financial condition through financial reporting and sometimes this will conflict with auditors who insist on disclosing the true condition of the company according to the guidelines given by the regulatory bodies.

RESEARCH DESIGN

The research design for the study is in the form of a mail survey. This method is chosen because it can elicit inferences about attitudes and opinions most effectively and efficiently (Carmichael and Swieringa, 1968). Furthermore, survey questionnaires are fast and easy to answer as well as to code and process. However, proper caution has to be taken to ensure that the limitations of mail survey such as response and non-response biases are controlled and minimised. For example, response bias is controlled by indicating in the questionnaire that there are no right or wrong answers and disguising the true objective of the study. All the questionnaires are also accompanied by an explanatory letter, which includes an assurance of confidentiality of responses, and a return envelope addressed directly to the researcher. All respondents are given two weeks to return the research questionnaire. After two weeks of the survey administration, the recipients are gently reminded to return the completed survey form by sending them a reminder letter. After the given period, late respondents are excluded from this study. This is done to ensure that non-response bias is minimised.

The mail questionnaire uses primarily closed-form statements and consists of two sections. Section A contains 51 statements regarding auditor independence. At the top of Section A, a definition of independence is given as follows: "Auditor independence is the cornerstone of auditing. An auditor is independent if he/she acts with integrity and objectivity, and is able to withstand pressure from management to infringe professional standards". Then, respondents are asked to indicate the extent to which, in their opinion, each of the statements listed has an impact on the independence of auditors. They are presented with a Likert rating scale of 1 to 5, where 1 = "seriously undermining auditor independence", 2 = "slightly undermines independence", 3 = "no effect on independence", 4 = "slightly enhances independence" and 5 = "strongly enhancing auditor independence".

The majority of statements (i.e., threats and safeguards of auditor independence) are taken from Beattie et al. (1999) and some are modified to suit the local context. Six new statements are added to the

original forty-five statements to strengthen the factors examined and explore new factors. The mail survey is pilot-tested and some necessary revision is done before administration. Section B asks general questions about the background of the respondents and is divided into two parts: general background of respondents and general information of the respondents' organisation. Such information is necessary for the independent variables tested in this study and also for understanding the characteristics of the respondents.

The dependent variable in this study is the perception of auditor independence, which is measured by the response score on the Likert scale. There are two major categories of independent variables: the threats/safeguards and the background information. The threats/safeguards consist of fifty-one statements outlining scenarios where the respondents are asked to determine their significance in terms of threatening or safeguarding auditor independence. Out of the fifty-one statements, twenty-three relate to threat factors of auditor independence and another twenty-eight relate to safeguard factors of auditor independence.

The background information consists of the respondents' knowledge of accounting and/or auditing, working experience, management level and their relation to financial statements. There are three levels of respondents' knowledge of accounting and/or auditing: a little informal knowledge, a little formal knowledge and an extensive formal knowledge. The respondents' total years of working experience is classified into three levels: less than five years, between five and less than ten years, and ten years or more. Management level comprises three levels: lower management, middle management and top management. The respondents' relation to financial statements consists of three levels: auditor, preparer and user.

As for the subjects, the study focuses on the various groups who are related to financial statements, including auditors, finance directors, accountants, bank loan officers, investors and financial analysts. Two hundred research questionnaires were sent to MBA students, but only those with at least two years' experience as users of financial statements and holding managerial positions were included in the data analysis. The respondents were asked to indicate in the mail questionnaire whether they are users of financial statements and have working experience of more than two years. Another two hundred research questionnaires were sent to various publicly listed companies in the Kuala Lumpur Stock Exchange (KLSE) and distributed among their accountants and managers. A further six hundred research questionnaires were sent with equal distribution to audit firms, banks and financial analyst firms. With

the expected response rate of about 10% (see Hamid et al., 2000), the survey is expected to generate a sample of about one hundred observations, which is deemed sufficient for this study.

A t-test is employed to analyse the difference of each of the fifty-one statements from the theoretical mean of 3 (on a Likert scale of 1 to 5). An analysis of variance (ANOVA) with repeated measures is employed to analyse the variability of perception among the fifty-one statements, controlling for the respondents' background.

DATA ANALYSIS

The research questionnaire was administered in the first week of January 2002 and responses were collected by the first week of February 2002 via self-addressed envelopes. The overall response rate is 16.30% (i.e., a total of 163 responses).

Descriptive statistics is computed for the demographic characteristics age, gender, educational background, annual gross income, respondents' form of organisation and working experience background. A majority of the respondents are male (61.35%) and have bachelor degrees (67.48%). Slightly more than half of the respondents have annual gross income of less than RM50,000 (50.92%) and the majority are younger than 35 years old (60.12%). Further, 48.47% of the respondents work in listed companies, 52.15% are in the middle management level and 47.85% have an extensive formal knowledge of accounting and/or auditing. Users of financial statements comprise 39.26% of the respondents, preparers 31.29% and auditors 29.45%. A majority of respondents have total working experience of less than ten years (63.19%).

To analyse whether the respondents perceive the impact of each statement (i.e., threat/safeguard of auditor independence) presented to them differently from each other, a repeated measures ANOVA was performed. The p-value is found to be less than 0.0001, which shows significant differential perception among the fifty-one statements. The mean for every statement is also recorded and arranged in descending order in Table 1.

Table 1. Mean Ranking for All Statements

Ranking	Mean	Statement	Description	Threat/ Safeguard
1	4.06	51	• Professional code of ethics for auditors.	OS
2	3.91	39	• Risk to audit firm of loss of Practising Certified Public Accountant status.	SS
3	3.90	48	• Continuous professional education for auditors.	OS
4	3.89	23	• Existence of an audit committee in the client firm.	CS
5	3.87	40	• Risk to audit firm of disciplinary action by MIA.	SS
6	3.86	50	• Stringent entry requirements for auditors.	OS
7	3.84	47	• Periodic practice review of an audit firm by other • audit firms.	OS
8	3.83	35	• Requirement for the statement of circumstances of outgoing auditor to be filed (e.g., with KLSE or Registrar of Business).	PS
9	3.83	38	• Auditor's right to attend and be heard at the AGM.	PS
10	3.82	41	• Risk of damage to auditor's reputation from public scandals.	SS
11	3.80	17	• Effect of new accounting standards introduced by the Malaysian Accounting Standards Board (MASB).	PS
12	3.72	49	• Unlimited auditor liability under the partnership structure.	OS
13	3.72	43	• Rotation of audit partners (at least every seven years).	CS
14	3.70	15	• Risk of referral to investigation/disciplinary body for audit firm.	PS
15	3.69	36	• Requirement for incoming auditor to communicate with outgoing auditor before accepting nomination or appointment.	PS
16	3.69	37	• Requirement for a Special Resolution at the AGM to remove auditors.	PS
17	3.64	18	• Effect of new pronouncements by MASB.	PS
18	3.63	34	• Right of outgoing auditor to require circulation of its statement of circumstances to firm members.	PS
19	3.63	42	• Risk of litigation against audit firm.	SS
20	3.60	16	• Risk of referral to investigation/disciplinary body for audit client.	PS
21	3.57	22	• Audit firm is a Big five international audit firm.	OS
22	3.56	46	• Internal audit function in client firm.	OS
23	3.53	29	• Client firm is a KLSE listed company.	OS
24	3.42	44	• Requirement for auditors to be re-appointed annually.	CS
25	3.42	13	• Disclosure of non-audit services fees paid to audit firm.	ST
26	3.31	28	• Directors' ability to seek a second opinion on contentious issues.	IT
27	3.29	24	• Desire of non-executive directors to protect their personal reputation.	CS
28	3.15	20	• Audit firm is a regional firm.	OS
29	3.08	12	• Provision of executive search and appointment services by audit firm.	ST
30	3.05	21	• Audit firm is a non-Big five international audit firm.	ST

Table 1. Mean Ranking for All Statements (*continued*)

Ranking	Mean	Statement	Description	Threat/ Safeguard
31	2.98	14	• Flexibility of accounting standards.	OT
32	2.98	32	• Risk of adverse market reaction to frequent auditor changes to client firm.	FT
33	2.96	11	• Provision of non-audit services by audit firm that is $\geq 25\%$ of audit fee.	ST
34	2.96	7	• Competition among audit firms.	ST
35	2.93	33	• Management time and costs incurred in changing auditors.	FT
36	2.88	31	• Client firm is in a weak financial condition.	ST
37	2.85	30	• Client is not a listed company.	ST
38	2.84	25	• Unpaid audit fees.	ST
39	2.79	6	• Audit fee discounting and low-balling (i.e. low initial fees).	ST
40	2.78	8	• Budget pressures imposed by audit firm on staff.	ST
41	2.77	45	• Audit partner's ability to evade quality control procedures within the audit firm.	OT
42	2.69	10	• Provision of non-audit services by audit firm that is $\geq 50\%$ of audit fee.	ST
43	2.64	5	• Importance of client to audit firm's overall portfolio.	ST
44	2.56	26	• Directors' de facto control auditors' appointment.	IT
45	2.55	27	• Directors' de facto control auditors' remuneration.	IT
46	2.45	19	• Audit firm is a small local firm.	ST
47	2.44	9	• Provision of non-audit services by audit firm that is $\geq 100\%$ of audit fee.	ST
48	2.25	4	• Derivation of 10% or more of total audit office revenues from one client.	ST
49	2.23	3	• Desire of audit partner not to lose status by losing key client.	ST
50	2.15	2	• Derivation of 10% or more of total audit firm revenues from one client.	ST
51	2.06	1	• Dependence of audit partner's income on the retention of a specific client.	ST

Note:

- PS : Safeguards created by the profession, legislation or regulation
 CS : Safeguards within the audit client
 SS : Safeguards within the audit firm's own systems and procedures
 OS : Other Safeguards
 FT : Familiarity Threat IT : Intimidation Threat
 ST : Self-Interest Threat OT : Other Threats

The higher the value of the mean (maximum value is 5) for a particular statement, the higher the factor is rated by respondents in term of its strength in enhancing auditor independence. Low mean values (minimum value is 1) indicate that the respondents perceived that the particular statement (i.e., factor) would seriously undermine auditor independence. Statement 51 (Professional code of ethics for auditors) has the highest mean (4.06) and statement 1 (Dependence of audit partner's total income on the retention of a specific client) has the lowest mean (2.06).

A repeated measures analysis was performed to determine the factors perceived by the respondents to be the most threatening to or the most suitable for safeguarding auditor independence. Further analysis was also done to determine whether the respondent's background is associated with the perception of auditor independence. Statement 1 ("Dependence of audit partner's income on the retention of a specific client") has the lowest mean (2.06) followed by Statement 2 ("Derivation of 10% or more of the total audit firm revenues from one client") with a mean of 2.15, Statement 3 ("Desire of audit partner not to lose status by losing key client") with a mean of 2.23 and Statement 4 ("Derivation of 10% or more of total audit office revenues from one client") with a mean of 2.25. These four statements are not significantly different from each other but Statement 1 and Statement 2 are significantly different from the other forty-seven statements. Statement 51 ("Professional code of ethics for auditors") has the highest mean of all (4.06) but is not significantly different from all the statements below it until the eleventh highest mean (3.80) attained by Statement 17 ("Effect of new accounting standards introduced by the Malaysian Accounting Standards Board (MASB)"). The second highest mean (3.91) is obtained for Statement 39 ("Risk auditing firm of loss of Practicing Certified Public Accountant status") and the third highest mean (3.90) is obtained by Statement 48 ("Continuous professional education for auditors"). Although most of the statements that are ranked highly are not really significantly different with each other, the results show that many respondents regarded quality control by various organisations as essential to safeguarding auditor independence. Four statements representing this factor are placed highly in the ranking. Further, respondents perceived audit committee, risk to auditor arising from poor quality audit and regulatory rights and requirements surrounding auditor change to play a vital role in safeguarding auditor independence.

The results show that respondents perceived that auditor independence could be safeguarded by various factors, with no

particular emphasis on whether one factor is more important than the others. However, the same cannot be said for factors that threaten auditor independence. Specifically, the respondents believed that economic dependence of the auditor on the audit client has the greatest negative effect on auditor independence.

The results for threats on auditor independence and safeguards of auditor independence with regard to the background factors, together with the p-values and multiple comparison groups are summarised in Table II and III, respectively. From the Table II, it can be seen that preparers have the lowest mean response (2.53) and are significantly different from the other groups. Auditors and users are not significantly different from each other. In particular, preparers perceived the statements presented to them as more seriously affecting auditor independence than the other two groups. However, there is no significant difference in terms of perception towards the safeguards of auditor independence among these three groups. Auditors have the highest mean response of 3.68 followed by preparers at 3.67 and users at 3.61.

Table 2. ANOVA and Multiple Comparison Results for Threats on Auditor Independence

Respondents' background	Levels	Mean	p-value	Multiple comparison grouping
In relation to financial statements	• User of financial statements (both in official and/or private capacity)	2.75	0.0001	A
	• Auditor of financial statements	2.74		A
	• Preparer of financial statements	2.53		B
Management level	• Lower	2.71	0.0150	A
	• Middle	2.70		A
	• Top	2.59		B
Accounting and/or auditing knowledge	• A little formal	2.79	0.0001	A
	• A little informal	2.76		A
	• An extensive formal	2.58		B
Total working experience	• Less than 5 years	2.72	0.0700	A
	• 5 years to less than 10 years	2.69		A
	• 10 years or more	2.63		A
Total working experience (alpha = 10%)	• Less than 5 years	2.72	0.0700	A
	• 5 years to less than 10 years	2.69		A
	• 10 years or more	2.63		B

Note:

Levels with same alphabet grouping are not significantly different from each other

As shown in Table 2, top management has the lowest mean response (2.59), which is significantly different from the other two management levels. This means that top management perceived the threat statements presented to them could seriously affect auditor independence more than the other two management levels perceived it. There is no significant difference between middle and lower management levels. As for the perception on safeguards of auditor independence, top management considers safeguard statements presented to them as being more able to enhance auditor independence. Their mean response (3.78) is significantly higher than the other management levels. Similarly, there is no difference in terms of perception between the lower and middle levels of management.

Table 2 shows that respondents with an extensive formal knowledge of accounting have the lowest mean response (2.58) and significantly lower than those who have little informal or formal knowledge of accounting. This means that respondents with an extensive knowledge perceived the statements on threats of auditor independence have a more serious affect than those with lesser knowledge of accounting perceived it. As for the perception on safeguards of auditor independence, the respondents for each level of knowledge have a significant perception from the others. Respondents with an extensive knowledge of accounting have the highest mean response (3.74) followed by those with little formal knowledge (3.62) and those with little informal knowledge (3.50). In particular, respondents with an extensive knowledge of accounting regard the statements as being more able to enhance auditor independence than the other respondents.

Table 2 also shows that respondents with total working experience of ten years or more have the lowest mean response (2.63). At a level of significance of 5%, there are no significant differences among the various groups of respondents. However, with a lower significance level of 10%, respondents with total working experience of ten years or more have a significantly different perception than those who have total working experience of less than five years. Respondents with total working experience of more than five years but less than ten years do not have different perception from the other two levels of respondents. As for the perception on safeguards of auditor independence, respondents with total working experience of more than ten years have a significantly higher mean response than the other two levels although these two levels are not significantly different from each other (refer to Table 2). Respondents with total working experience of ten years or more have the highest mean response (3.75) which means they

perceived the safeguards statements presented to them differently than the other levels of respondents.

Table 3. ANOVA and Multiple Comparison Results for Safeguards of Auditor Independence

Respondents' background	Levels	Mean	p-value	Multiple comparison grouping
In relation to financial statements	• Auditor of financial statements	3.68	0.0978	A
	• Preparer of financial statements	3.67		A
	• User of financial statements (both in official and/or private capacity)	3.61		A
Management level	• Top	3.78	0.0001	A
	• Lower	3.64		B
	• Middle	3.60		B
Accounting and/ or auditing knowledge	• An extensive formal	3.74	0.0001	A
	• A little formal	3.62		B
	• A little informal	3.50		C
Total working experience	• 10 years or more	3.75	0.0001	A
	• 5 years to less than 10 years	3.62		B
	• Less than 5 years	3.56		B

Note:

Levels with same alphabet grouping are not significantly different from each other. (at 5%)

CONCLUSION

The findings indicated that self-interest threat especially the economic dependence of the auditor on the audit client is the most threatening factor of auditor independence. This finding is consistent with previous studies by Beattie et al. (1999) and Teoh and Lim (1996). Several new issues are included in the study and some of them are considered by the respondents to be important in safeguarding auditor independence. For example, quality control by various organisations is found to be the most important safeguard of auditor independence, with the two statements under this notion being ranked as the first and third most important factors. A major change in perception of auditor independence is evident on the statement representing audit firm size. Respondents in Beattie et al. (1999) rated big international audit firm as one of the most important enhancement factor but respondents in this study found it to be the least

important. This is probably due to the wide adverse publicity regarding several big international audit firms that are unable to remain independent with their important audit clients.

A study on the respondents' background to examine whether it has any effect on their perception of auditor independence found interesting results. Preparers are found to have a different perception of auditor independence compared to auditors and users of financial statements, but only for the perception of threats on auditor independence. They are not significantly different from each other in term of perception of safeguards on auditor independence.

Respondents with an extensive formal knowledge of accounting are found to have different perceptions of threats on auditor independence than those who have little formal and informal knowledge of accounting. Interestingly, all of them have significantly different perceptions from each other with regards to safeguards of auditor independence.

Respondents in top management level are also found to have a significantly different perception on both threats and safeguards of auditor independence than those at the middle and lower management levels. They also consider those statements representing threats and safeguards differently than the rest of the respondents.

Finally, respondents with a total working experience of ten years or more are also found to have a different perception of auditor independence from the rest of the respondents especially on perception of safeguards of auditor independence. The differences are not as clear for the perception of threats on auditor independence. However, at a 10% significance level, respondents with a total working experience of ten years or more are found to have significantly different perception than those with a total working experience of less than five years.

Today, many auditors find themselves in a predicament whereby their independence is constantly being challenged despite the many studies and initiatives undertaken by the public accounting profession to improve the perception. With so many issues and uncertainties surrounding the audit profession, it is necessary to investigate which of these are more important than others.

One of the aims of this study is to shed some light on this and to highlight several factors that are deemed important by auditors, preparers and users. Auditors especially will have the opportunity to bridge any gap existing between them and the public in terms of

perceptions and belief by incorporating and implementing any crucial issue perceived by the public to be capable of improving their independence. Preparers and users alike will also have the opportunity to understand common factors and differences in issues that could improve their effort towards achieving an acceptable degree of auditor independence.

For researcher and the accounting and auditing profession, by distinguishing several important issues from the rest, the problems of channeling huge resources for research in inappropriate places can be reduced. This in turn will lead to a better use of resources and promote efficiency in getting results that can have a positive impact on improving auditor independence.

The findings can also have implications for policy makers and regulatory bodies. In particular, they can assist the regulatory bodies in their evaluation of important issues that need to be addressed before any change to accounting standards or regulations is made. Further, the regulatory bodies can take into consideration the perceptions of the various groups related to the financial statements and strengthened the rules and settings to promote greater acceptance by majority of the various groups.

Every research method has its own limitations. For this study, the mail survey has limitations such as the possibility of forcing respondents to express an attitude when they do not have any and choosing an option that does not truly reflect their opinions. Also, some respondents may take a lot of time to complete the questionnaire and this may induce fatigue and inconsistent answers. Another limitation is that the respondents might find that some of the statements presented are difficult to understand, especially to those who have very little knowledge of accounting or auditing. However, several measures have been made to mitigate these limitations. Statements in the questionnaire are written in a simple language to make it easier to understand and wherever necessary additional explanations are presented. Likert rating scale is restricted to 5 points of rating to reduce any difficulty arising from a longer scale such as 7 or 9 points of rating.

Mail surveys also take a lot more time and resources to process and analyse. A small response rate, as in this case, can also affect the reliability and validity of the results. The study also depends on the validity of the operationalisation of the variables. However, the variables validity has been improved by adopting previous studies and revising the questionnaire based on the feedback of the pilot test. Caution has

also been exercised to increase reliability by not having too many levels for each background variable.

There is also a possibility that ecological validity might be affected because the study was done on respondents in Malaysia. Previous studies are mostly done in developed countries such as the United States and the United Kingdom. There is some evidence that findings from different countries can be different (Dykhhoorn and Sinning, 1981; Garcia-Benau and Humphrey, 1992). However, this difference could be an advantage in term of contribution towards the study of perception of auditor independence in a developing and also an Asian country.

There are several issues that future research may look into. First, future research can focus on the significant results in this study, such as economic dependence of the auditor on the audit client and quality control by various organisations. Research questionnaires can be designed to focus only on the significant variables. A more focused and intensive investigations may lead to new heights. Future research could also look at a more detailed study of current issues like Non-Audit Services (NAS) because it is no longer an issue of whether providing NAS is acceptable or not, but rather what types of NAS are allowable when auditors provide such services to the clients that they audit.

Since this study relies heavily on the previous studies like Beattie et al. (1999), there are several issues that have been left out because of limitations in the research design. Future research could incorporate several issues that are not included in this study, such as issues on the audit committee and "Chinese wall" where there is a barrier between the auditing firm and the groups auditing the audit client. Incorporation of new independent variables or improvising existing ones could also be beneficial to future research. To conclude, it is hoped that this study can contribute to the auditor independence literature.

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