Perceptions of Libyan external auditor independence

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A thesis submitted in partial fulfilment of the requirements of Liverpool John Moores University, Business School for the degree of Doctor of Philosophy

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Declaration

This is to certify that this thesis is submitted in fulfilment of the requirements of the degree of Doctor of Philosophy of the Business School at Liverpool John Moores University and it is entirely my own work and I have not submitted it for any other degree.

Abdoalhakim Albashir Almalhuf

Dedication

I wish to dedicate this study to my parents: my father for whom I wish God could grant good health and long life and to my late mother for whom I ask God to grant peace in the hereafter and give her a place in his paradise.

I wish also to dedicate this thesis to my wife Fawzia for her continuous and patient support and to my lovely children Abtihal, Mohamed, Mostafa, Monder and Hoda.

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My gratitude is also due to many people in Libya, especially those who have participated in the study including external auditors, auditors from the Institute of Financial Auditing, Taxation Board auditors and bank loan officers. Special thanks also go to the members of staff of the Cultural Affairs in the Libyan Bureau in London.

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Abstract

The auditing profession is performing a vital role in societies through the credibility that the external auditor's report adds to the financial statements of enterprises which help several interested parties in their economic decision process. It has been argued that this credibility depends mainly on the outsiders' perceptions of auditor independence. Therefore, auditor independence is considered as the essence and the cornerstone of the auditing profession. For that reason, the main objective of this study is to investigate the effect of nine factors (audit firm size, audit firm tenure, competition, auditors' economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of non-audit services (NAS)) on perceptions of auditor independence held by participants from four sample groups (external auditors, auditors from the Institute of Financial Auditing, Taxation Board auditors and bank loan officers) in the Libyan context and to look at the reasons behind these perceptions. In addition to this main aim, the study sought to examine the attitudes of the participants about the accounting and auditing profession and its related environment.

In order to achieve the research objectives and to answerer the research questions, a mixed research methodology was adopted. This implied using two types of research methods for collecting data: questionnaire and semi-structured interview. To produce the findings from the quantitative and qualitative data, three main analysis techniques where used. These included descriptive statistics, parametric tests such as the one-way analysis of variance (ANOVA) and Duncan post-hoc comparison test, and the Content analysis technique.

The findings of the study showed that auditor independence was perceived to be undermined when an audit is performed by a sole practitioner or by a small audit firm, an audit firm audit the same audit client for a long period, the existence of competition between audit firms, auditors are economically dependent on their audit clients, the audit client is in the private sector or is in a strong financial condition, personal and financial relationships and when NAS were provided by the audit firm to its audit clients. On the other hand, auditor independence was perceived to be enhanced when an audit is performed by a big or medium audit firm, the existence of an audit committee in the audit client's company, the audit client is in the state sector or is in a weak financial condition and when the audit firm did not provide any kind of NAS to its audit clients. In addition to these main findings, it was revealed that rules and regulations in the Libyan laws were seen as not including comprehensive provisions that could enhance and maintain auditor independence. Moreover, the accounting and auditing profession in general and auditors in particular were perceived to enjoy reasonable respect and status in Libyan society by the sample groups except for the EA group who perceived the opposite. Also the Libyan Accountants and Auditors Association (LAAA) were considered as not performing an important role in either developing the accounting and auditing profession or in maintaining auditor independence.

Table of contents

Subject	Page
Declaration	i
Dedication	ii
Acknowledgements	iii
Abstract	iv
Table of contents	v
List of tables	viii
List of figures	ix
List of acronyms.	x
Chapter one: Introduction of the research	**1**
1. 0: Introduction.	2
1. 1: Background to the research problem	2
1. 3: The objectives and questions of the research.	6
1. 4: The chosen methodology of the research.	8
1. 5: The motivations and justifications for the research.	9
1. 6: The structure of the research.	10
Chapter two: An overview of the context of the study.	**13**
2. 0: Introduction.	14
2. 1: The social and political environment of the context.	14
2. 1. 1: Geography and population.	14
2. 1. 2: Historical background.	15
2. 1. 3: Social and cultural aspects.	17
2. 1. 4: The political system.	18
2. 2: The economic environment of the context.	20
2. 2. 1: The Libyan economy before the discovery of oil.	20
2. 2. 2: The Libyan economy after the discovery of oil.	21
2. 3: Accounting and auditing environment.	23
2. 3. 1: Development of accounting and auditing.	24
2. 3. 2: Related accounting and auditing regulations.	27
2. 4: Summary.	33
Chapter three: Auditor independence, its development, nature and importance	**34**
3. 0: Introduction.	35
3. 1: Development of auditor independence.	35
3. 2: The nature and meaning of auditor independence.	41
3. 3: The importance of auditor independence.	48
3. 4: Summary.	52
Chapter four: Academic studies on auditor independence.	**53**
4. 0: Introduction.	54
4. 1: perceptions of auditor independence.	54
4. 1. 1: Size of the audit Firm.	54
4. 1. 2: Audit firm tenure.	60
4. 1. 3: Competition among audit firms.	65
4. 1. 4: Auditors' economic dependence on their audit clients.	70
4. 1. 5: Audit committees.	74
4. 1. 6: Status and financial condition of the audit client.	80
4. 1. 7: Personal relationships.	84
4. 1. 8: Financial relationships	87
4. 1. 9: Provision of non-audit services (NAS).	89
4. 2: Limitation of the literature review (the literature gap).	97
4. 3: Summary.	98
Chapter five: Research methodology	**101**
5. 0: Introduction.	102
5. 1: Research paradigms.	102
5. 1. 1: Quantitative methodology.	105

Table of contents - continued

Subject	Page
5. 1. 2: Qualitative methodology.	107
5. 1. 3: Mixed research methodology.	109
5. 2: Data collection methods.	114
5. 2. 1: Questionnaires.	114
5. 2. 2: Interviews.	117
5. 3: Summary:	120
Chapter six: The chosen methodology and design of the research	**121**
6. 0: Introduction	122
6. 1: The objectives of the study and the research questions.	122
6. 2: The chosen research methodology.	124
6. 2. 1: Design and contents of the questionnaire.	126
6. 2. 1. 1: Sources of the included questions	126
6. 2. 1. 2: Length and wording of the questionnaire.	126
6. 2. 1. 3: Type of questions	127
6. 2. 1. 4: Scaling of the questions.	127
6. 2. 1. 5: Content of the questionnaire.	128
6. 2. 1. 6: Piloting the questionnaire.	132
6. 2. 2: Interview development and procedures.	134
6. 2. 3: The Population and sampling of the research.	137
6. 2. 3. 1: The identified population.	137
6. 2. 3. 2: The sampling process.	138
6. 2. 4: Questionnaire distribution and collection.	140
6. 2. 5: The semi-structured interviews of this study.	142
6. 2. 7: Methods of data analysis.	143
6. 3: Reliability analysis.	146
6. 4: Data collection problems.	147
6. 5: Summary.	147
Chapter seven: Findings of the questionnaire	**149**
7. 0: Introduction.	150
7. 1: Analysis of part one of the questionnaires.	150
7. 1. 1: Gender.	151
7. 1. 2: Age.	151
7. 1. 3: Level of education.	151
7. 1. 4: Subject of study.	152
7. 1. 5: Years of working experience.	153
7. 2: Analysis of part two of the questionnaire.	153
7. 2. 1: Audit firm size and perceptions of auditor independence.	154
7. 2. 2: Audit firm tenure and perceptions of auditor independence.	159
7. 2. 3: Competition and perceptions of auditor independence.	163
7. 2. 4: Auditors' economic dependence on their audit clients and perceptions of auditor independence.	168
7. 2. 5: Audit committees and perceptions of auditor independence.	172
7. 2. 6: The status and financial condition of the audit client and perceptions of auditor independence.	176
7. 2. 7: Personal relationships and perceptions of auditor independence.	181
7. 2. 8: Financial relationships and perceptions of auditor independence.	186
7. 2. 9: Provision of non-audit services (NAS) and perceptions of auditor independence.	190
7. 3: Analysis of part three of the questionnaire.	199
7. 4: Summary.	207
Chapter eight: Findings of the semi-structured interviews	**209**
8. 0: Introduction.	210
8. 1: The purpose of the interview.	210

Table of contents – continued

Subject	Page
8. 2: Interviewees background information.	211
8. 3: Interviewees' perceptions related to the effect of the nine selected factors.	212
8. 3. 1: Audit firm size and interviewees' perceived auditor independence.	212
8. 3. 2: Audit firm tenure and interviewees' perceived auditor independence.	214
8. 3. 3: Competition between audit firms and interviewees' perceived auditor independence.	216
8. 3. 4: Auditors' economic dependence and interviewees' perceived auditor independence.	217
8. 3. 5: Audit committees and interviewees' perceived auditor independence.	219
8. 3. 6: The status and financial condition of the audit client and interviewees' perceived auditor independence.	220
8. 3. 7: Personal relationships and interviewees' perceived auditor independence.	222
8. 3. 8: Financial relationships and interviewees' perceived auditor independence.	223
8. 3. 9: Provision of (NAS) and interviewees' perceive auditor independence.	224
8. 4: Interviewees' attitudes regarding the accounting and auditing profession and its related environment.	226
8. 4. 1: The accounting and auditing profession and its related regulations.	226
8. 4. 2: The accounting and auditing profession and its status in the Libyan society.	227
8. 3. 3: The (LAAA) and its role in developing the accounting and auditing profession and maintaining auditor independence.	229
8. 5: Summary.	230
Chapter nine: Discussion of the main findings of the questionnaire and interviews	**233**
9. 0: Introduction.	234
9. 1: Participants' perceptions of auditor independence.	234
9. 1. 1: Audit firm size.	234
9. 1. 2: Audit firm tenure.	235
9. 1. 3: Competition between audit firms.	237
9. 1. 4: Economic dependence on the audit client.	239
9. 1. 5: Audit committees.	240
9. 1. 6: The status and financial condition of the audit client.	242
9. 1. 7: Personal relationships.	243
9. 1. 8: Financial relationships.	245
9. 1. 9: Provision of non-audit services (NAS).	246
9. 2: Participants' attitudes about the auditing and accounting profession.	249
9. 3: Summary.	252
Chapter ten: Summary and conclusion	**254**
10. 0: Introduction.	255
10. 1: An overview of the study.	255
10. 2: Summary of the main findings of the study.	260
10. 2. 1: Background information.	260
10. 2. 2: Perceptions of auditor independence.	260
10. 2. 3: Attitudes about the accounting and auditing profession.	267
10. 3. The recommendations of the study.	271
10. 4: The contribution of the study.	273
10. 4: The limitation of the study and avenues for future research.	274
References and Bibliography	**277**
Appendices	**295**
Appendix A: Summary of the previous research on auditor independence	296
Appendix B.: A questionnaire on perceptions of auditor independence	298
Appendix C: Perceptions of Libyan external auditor independence: The interview questions.	306
Appendix D: The Arabic version of the questionnaire.	307
Appendix E: The Arabic version of the interview questions	313
Appendix F: Interviewees' perceptions of auditor independence and their attitudes about the accounting and auditing profession.	314

List of tables

No. Ta	Subject	Page
2. 1	The Libyan GDP by sectors over the period from 2000 to 2005 (in Libyan Dinar)	23
5. 1	Assumptions of the two main paradigms.	103
5. 2	General rules for designing questions.	119
6. 1	Summary of the number of the distributed and collected questionnaires for each group.	142
6. 2	Samples selected from each group for semi-structured interviews.	143
6. 3	Reliability analysis	147
7. 1	Participants' gender.	151
7. 2	Participants' age	151
7. 3	Participants' level of education.	152
7. 4	Participants' subject of study.	152
7. 5	Participants' years of working experience.	153
7. 6	The response frequencies of the four groups with regard to audit firm size.	157
7. 7	The response percentages of the four groups with regard to audit firm size.	157
7. 8	One-way ANOVA test with Duncan post-hoc test with regard to audit firm size.	158
7. 9	The response frequencies of the four groups with regard to audit firm tenure.	161
7. 10	The response percentages of the four groups with regard to audit firm tenure.	161
7. 11	One-way ANOVA test with the Duncan post-hoc test regarding the audit firm tenure.	162
7. 12	The response frequencies of the four groups with regard to competition between audit firms.	166
7. 13	The response percentages of the four groups with regard to competition between audit firms.	166
7. 14	One-way ANOVA test with Duncan post-hoc test with regard to competition between audit firms.	167
7. 15	The response frequencies of the four groups with regard to auditors' economic dependence on their clients.	170
7. 16	The response percentages of the four groups with regard to auditors' economic dependence on their clients.	170
7. 17	One-way ANOVA test with Duncan post-hoc test with regard to auditors' economic dependence on their clients.	171
7. 18	The response frequencies of the four groups with regard to audit committees.	174
7. 19	The response percentages of the four groups with regard to audit committees.	174
7. 20	One-way ANOVA test with Duncan post-hoc test with regard to audit committees.	175
7. 21	The response frequencies of the four groups with regard to the status and financial condition of the audit client.	179
7. 22	The response percentages of the four groups with regard to status and financial condition of the audit client.	179
7. 23	One-way ANOVA test with Duncan post-hoc test with regard to the status and financial condition of the audit client.	180
7. 24	The response frequencies of the four groups with regard to the auditors' personal relationships with their audit clients.	184
7. 25	The response percentages of the four groups with regard to the auditors' personal relationships with their audit clients.	184
7. 26	One-way ANOVA test with Duncan post-hoc test with regard to the auditors' personal relationships with their audit clients.	185
7. 27	The response percentages of the four groups with regard to the auditors' financial relationships with their audit clients.	188
7. 28	The response percentages of the four groups with regard to the auditors' financial relationships with their audit clients.	188
7. 29	One-way ANOVA test with Duncan post-hoc test with regard to the auditors' financial relationships with their audit clients.	189
7. 30	The response frequencies of the four groups with regard to the provision of non-audit services.	193
7. 31	The response percentages of the four groups with regard to the provision of non-audit services.	193

List of tables - continued

No. Ta	Subject	Page
7. 32	One-way ANOVA test with Duncan post-hoc test with regard to the provision of non-audit services.	194
7. 33	Factors perceived to undermine auditor independence	197
7. 34	Factors perceived to enhance auditor independence.	298
7. 35	The response frequencies of the four groups with regard to the participants' attitudes about the Auditing and Accounting profession and its related environment in the Libyan context.	204
7. 36	The response percentages of the four groups with respect to the participants' attitudes about the Auditing and Accounting profession and its related environment in the Libyan context	205
7. 37	One-way ANOVA test with Duncan post-hoc test with regard to the participants' attitudes about the Auditing and Accounting profession and its related environment in the Libyan context.	206
8. 1	Background information of the interviewees.	211
10. 1	Summary of the differences between the four groups from the questionnaire relating to the perceived effect of the nine selected factors on auditor independence.	266
10. 2	Summary of the differences between the four groups from the questionnaire relating to their attitudes about the accounting and auditing profession.	270

List of figures

Fig. no	Subject	Page
1. 1	The structure and design of the study	12
2. 1	Map of Libya	15

List of Acronyms

AAA	American Accounting Association.
AIA	American Institute of Accountants.
AICPA	American Institute of Certified Public Accountants.
ANOVA	Analysis of variance.
APB	Auditing Practices Board.
ASU	Arab Socialist Union.
BLO	Bank Loan Officers.
BLO	Bank loan officers.
BPC	Basic People Congresses.
EA	External Auditors.
EA	External auditors.
EFA	European Federation of Accountants.
FAO	Food and Agriculture Organisation.
GAAP	Generally Accepted Accounting Principles.
GAAS	Generally Accepted Auditing Standards.
GAAS	Generally Accepted Auditing Standards.
GDP	Gross Domestic Product.
GPC	General People Congress.
GPES	Guide to Professional Ethics Statement.
GSPLAJ	Great Socialist People's Libyan Arab Jamahiriya.
ICAEW	Institute of Chartered Accountants of England and Wales.
IESBA	International Ethics Standards Board.
IFA	Institution of Financial Auditing.
IFA	Auditors from the Institute of Financial Auditing,
IFAC	International Federation of accountants.
ILO	International Labour Organisation.
LAAA	Libyan Accountants and Auditors Association.
LAAA	Libyan Accountants and Auditors Association.
LAJS	Libyan-American Joint Services.
LAR	Libyan Arab Republic.
LARC	American Reconstruction Commission.
LATAS	Libyan-American Technical Assistance Services.
LCC	Libyan Commercial Code.
LJMU	Liverpool John Moores University.
LPDSA	Libyan Public Development and Stabilisation Agency.
LPL	Libyan Petroleum law.
LSE	Libyan Stock Exchange.
NAS	Non-Audit Services.
RCC	Revolutionary Command Council.
SA	State Auditors.
SAS	Statement on Auditing Standards.
SEC	Securities and Exchange Commission.
SOX	Sarbanes-Oxley Act.
SPSS	Statistical package for social sciences.
TBA	Taxation Board Auditors.
TBA	Taxation Board auditors.
UK	United Kingdom.
UNESCO	Scientific and Cultural Organisation.
USA	United States of America.
WHO	World Health Organization.

Chapter one:

Introduction to the research

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Introduction to the research

1. 0: Introduction.

The aim of this chapter is to provide an introduction to the study and a brief overview of its contents. For this reason, the chapter is divided into five sections. The first section provides the background of the study and identifies the nature of the research problem. Section two outlines the research objectives and research questions. The adopted methodology in this study is briefly in outlined in section three. Section four presents the main motivations behind this study. Finally, the structure of the study is summarised in section five.

1. 1: Background to the research problem.

The main purpose of the external auditing profession is to assure financial statement users in particular and the public in general, that the financial statements of enterprises are reliable. Therefore, the value of the audit tends to depend mainly on the outsider's perception of the competence and independence of the external auditor (Flint, 1988). Competence relates to the technical capability of auditors to discover breaches in the accounting system, whereas independence depends on the degree of auditors being independent from their clients (Niemi, 2004; Jenkins and Velury, 2008). Flint (1988) argued that education training and experience to acquire the necessary skills (competence) ultimately are critically dependent on the auditor independence. Furthermore, according to Boritz (1992) independence and integrity are the essence of the accounting profession, followed by professional competency. In other words, to provide quality audit services and meet the demands of financial statements users, auditors must be totally independent from their clients in doing their job.

Independence is critically important to auditors as it is considered one of the basic requirements underlying the audit work (Firth 1980). If auditors are not truly independent, their opinions will add no value to their clients' financial statements. Consequently, auditor independence is often referred to as the cornerstone of the

auditing profession (Abdul Nasser et al, 2006; Zhang and Emanuel, 2008). Independence in auditing was described by Arens et al (2003: 83) as:

> *"Taking an unbiased viewpoint in the performance of an audit test, evaluating of results and the issue of the audit report".*

The concept of auditor independence has evolved over the years through several stages in the history of the development of the accounting and auditing profession which itself has evolved as a result of the socio-economic changes in societies (Watts and Zimmerman, 1983; Vanasco, 1996; Higson and Tayles, 1998; Patel and Psaros, 2000; Sucher and Bychkova 2001; Sucher and Maclullich, 2004; Porter et al, 2004). The need for auditor independence became important when a separation of the management functions from the ownership were accrued, especially after the huge increase in the size of the enterprises after the industrial revolution in the late eighteenth century (Watts and Zimmerman, 1983). Since then, most of the professional and governmental bodies, i. e. the International Federation of Accountants (IFAC), the Institute of Chartered Accountants in England and Wales (ICAEW) and the American Institute of Certified Public Accountants (AICPA), have considered the importance of auditor independence and required that financial statements had to be audited by independent auditors. In addition several standards and guidelines were issued by such parties in order to enhance and maintain auditor independence. For instance, the AICPA in its second general standard of Generally Accepted Auditing Standards (GAAS) required that:

> *"In all matters relating to the assignment, independence in mental attitude is to be maintained by the auditor or auditors"* (Vanasco, 1996: 6).

The meaning of auditor independence is identified by the auditing professional bodies and researchers to have two separate components, namely, "Independence in fact" and "Independence in appearance". The former refers to the mental attitude of the auditor in terms of professional objectivity, while the latter refers to the public's or others' perceptions of auditor independence (Porter et al, 2004). Nevertheless, it has been argued that financial statement users when relying on audited financial reports for their economic decision process cannot easily observe or assess the real independence of the auditors. This is because independence in fact depends on the auditor's intangible personal characteristics such as integrity, dignity, honesty and fairness. Therefore, the

latter element of independence, i. e. perceived independence, has been recognised as a fundamental dimension of the concept of independence in protecting the interests of the financial statement users and the status of the auditing profession (Gorman and Ansong. 1998; Beattie et al, 1999; Wines, 2006).

Subsequent to the latest corporate collapses and corporate scandals across the world such as Enron, WorldCom, and Sunbeam in the USA; Independent Insurance in the UK; HIH and OneTel in Australia; and Parmalat in Italy, the notion of auditor independence has received substantial attention from the profession and regulatory bodies worldwide. Furthermore, a great scrutiny by the financial media was directed towards questioning auditor independence in particular and the quality and the importance of the audit work in general (Houghton and Jubb, 2003; Abu Bakar et al, 2005; Geiger et al, 2005; Wines, 2006; Law, 2008).

In order to retain the confidence of users of financial statements in the audited financial reports, policy makers have urgently responded to these crises by issuing a huge number of new regulations. Nevertheless, it has been argued that such regulations have taken place mainly by relying on subjective estimations of the best trade-off between advantages and disadvantages of such regulations without empirical evidence which should have considered the views of outside parties (Firth, 1980; Kilcommins, 1997; Awadallah, 2006). Therefore, it was suggested that if confidence in the role of the accounting and auditing profession in general and in auditors and their independence in particular needed to be maintained and enhanced, more empirical research is required to be undertaken (Awadallah, 2006).

As a response to these critics, a considerable amount of attention and debate among researchers and academics on the two dimensions of auditor independence and an extensive theoretical and empirical literature on them has been developed. Notably, most of the research relating to this issue has been on identifying how auditor independence is perceived by different interested parties and what factors might influence it and assessing their impact upon perceived independence since independence in fact is unobservable (Beattie et al, 1999; Abu Bakar et al, 2005).

Nevertheless, the majority of previous research has been conducted in developed countries (e. g. the UK and the USA) and in some market economy developing countries (e. g. Hong Kong and Malaysia) but little is known about developing countries including Libya[1] where research on this area is very scarce (Hudaib, 2003; Abu Bakar et al, 2005; Awadallah, 2006; Alleyne et al, 2006 a). In this regard, Hudaib (2003) suggested that research on perceptions of auditor independence must be conducted within the context of the country examined since perceptions of auditor independence are mainly produced by a complex set of interrelationships of several interested groups in the audit work and a number of factors within a particular environment. Furthermore, Beattie et al (1999) argued that even within a single country, the effect on perceptions of auditor independence is likely to change over time due to changes in the local economic, political, cultural and regulatory environments. Moreover, due to differences of these environments across countries, they suggest that research on this issue, i. e. perceptions of auditor independence, should be undertaken in its own particular national setting.

In addition to the above, the inconsistency of the results produced by a number of previous studies regarding the perceived effect of several factors on auditor independence and the reliance of those studies on either the quantitative or the qualitative approaches instead of using both of them, suggests opportunities for further research. It has been argued that when researchers use more than one approach, i. e. mixed research methodology (triangulation), various aspects of the same topic can be looked at and explored (Walsh, 2001).

Therefore, a study on perceptions of auditor independence in the Libyan context especially after the changes that its social, political and economic systems have witnessed over the last two decades (see, chapter two, section 2. 2. 2) which might have an impact on the accounting and auditing profession in general and auditor independence in particular may help to fill the gap in and contribute to the existing literature by providing invaluable insights.

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[1] - Although the phenomenon of auditor independence previously has been extensively investigated in many countries, only two studies (Mousa, 1992 and Almalhuf, 2003) related to this topic were conducted in Libya. These two studies however, as will be seen in chapter four, were limited in a number of issues such as the adopted methodology, sample size and the number of factors which were examined.

1. 2: The objectives and questions of the research.

The main aim of the current study is to provide additional empirical evidence relating to the perceptions of auditor independence. More specifically, the study aims to investigate and explore the effects of nine selected factors (audit firm size, audit firm tenure, competition, auditors' economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of non-audit services (NAS)) on perceptions of external auditor independence held by four Libyan groups (external auditors (EA), auditors from the Institute of Financial Auditing (IFA), Taxation Board auditors (TBA) and bank loan officers (BLO)). Two main criteria were set for selecting the factors used in the current study. These include a) the factors must have motivated some theoretical and empirical research and b) these factors were deemed by the participants in the focus group that was held at Liverpool John Moores University (LJMU) with 9 Libyan PhD accounting students[1] as the most important factors that might influence auditor independence in the Libyan auditing environment.

In addition to the above main goal (i. e. examining perceptions of auditor independence), the study seeks to analyse the attitudes of the participants from the four targeted groups about the accounting and auditing profession and its related legal, educational, economic and social environments in the Libyan context. To achieve these aims, the following objectives were formulated.

1. To explore the relevant literature to auditor independence in order to understand the nature and development of auditor independence and the factors that might affect it.
2. To examine the effect of the above nine selected factors on the perceptions of auditor independence held by the four targeted groups in the Libyan context.
3. To investigate the differences of the subject groups' perceptions of auditor independence with respect to the effect of the nine selected factors.

[1]- All these students have a significant knowledge of accounting and auditing practices in the Libyan economic environment as most of them are lecturers at the Libyan universities. In addition, some of them used to work for audit firms or were partners of audit firms in Libya.

4. To measure the participants' attitudes about the auditing and accounting profession and its related environment in the Libyan context
5. To assess the reasons for such perceptions being held by the participants from the four targeted groups with regard to both the effect of the nine selected factors on auditor independence and to their attitudes about the auditing and accounting profession.

Objective one is concerned with reviewing the relevant literature (books, journals, theses and government and professional documents and publications) in order to gain a better understanding of auditor independence and to structure the theoretical framework of the study. Objective two assesses whether auditors were perceived to be more or less independent when any one of the above factors was present. Objective three investigates whether perceptions of auditor independence differ between participants of the four targeted groups. Objective four identifies and measures the attitudes of the participants in this study with regard to different accounting and auditing related issues such as legal, economic, social and educational systems in the Libyan context. Finally, objective five analyses the results obtained from the second, third and fourth enquiries by probing further into the reasons that the targeted groups, i. e. EA, IFA, TBA and BLO, hold the perceptions that they do. To address the gaps in the relevant literature and to achieve the objectives, the current study sets the following questions:

1. How do audit firm size, audit firm tenure, competition, auditors' economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of (NAS) affect perception of auditor independence held by EA, IFA, TBA and BLO?
2. Do perceptions of auditor independence significantly differ between EA, IFA, TBA and BLO with respect to the impact of the above nine factors?
3. How do participants from the EA, IFA, TBA and BLO perceive the auditing and accounting profession and its related legal, professional, social, and education environments in the Libyan context?

4. Do participants' attitudes from the targeted populations (EA, IFA, TBA and BLO) significantly differ about the accounting and auditing profession and its related environments in the Libyan context?

5. Why are such perceptions of the impact of the above nine factors and the attitudes about the accounting and auditing profession and its related environments in the Libyan context held by EA, IFA, TBA and BLO?

1. 3: The chosen methodology of the research.

As will be discussed in more detail in chapters five and six, there are two main methodologies that can be used in performing research in the social sciences: The qualitative approach and the quantitative approach. Both approaches and their methods of collecting data such as questionnaire surveys, structured, semi-structured and unstructured interviews have been used in previous related research to evaluate perceptions of auditor independence. Each method however, has its advantages and disadvantages. Studies that use only one method are more vulnerable to mistakes linked to that particular method than studies that use multiple methods where different types of data provide cross-data validity checks (Walsh, 2001; Robson, 2002; Collis and Hussey, 2003). Therefore, to overcome the weaknesses of using either method and to obtain useful results, a mixed methodology research was used in this study by adopting both qualitative and quantitative methods of collecting data.

Two stages of collecting data were conducted in this study. The first stage was based on a quantitative approach where structured questionnaires were used to clarify perceptions of external auditor independence and attitudes about the accounting and auditing profession held by four targeted groups (EA, IFA, TBA and BLO) in the Libyan context. The questionnaire was divided into three parts. In part one, participants were asked to provide some information about their background such as gender, age, occupation. Part two included 31 statements which described different auditor-client relationships followed by a five-point Likert scale and designed to measure the perceived effect of the nine selected factors on auditor independence. The last part of the questionnaire (i. e. part three), tended to measure the attitudes of the participants about the auditing and accounting profession and its related environments in the Libyan context.

In order to gain a more in-depth understanding of the perceived effect of the selected factors on auditor independence and attitudes about the accounting and auditing profession held by the subject groups in the Libyan context, a second stage using a qualitative approach collecting method was performed. In this stage data was collected through conducting semi-structured interviews with selected samples from the four targeted groups. In particular, semi-structured interviews were chosen for the current study among other types of interviews because they allow space for discussion and encourage participants to raise and elaborate on important related issues (Oppenheim, 1997).

Three main analysis techniques where used in this study to produce the findings from the quantitative and qualitative data. These included descriptive statistics, parametric tests such as the one-way analysis of variance (ANOVA) and Duncan post-hoc comparison test, and content analysis technique.

1. 4: The motivations and justifications for the research.

The incentive for conducting this study is due to the absence of extensive and in depth research exploring the effect of the above mentioned factors on perceptions of auditor independence in the Libyan context. This is especially important in the context of a developing country where significant changes in the political, social and economic systems are taking place. In particular, some of the main motivations for undertaking this study include the following:

- As a result of the government policy in encouraging free market capitalism and boosting foreign investment into Libya, there has been a significant increase in public and joint venture companies in Libya over the years. As such, it is important to understand how auditor independence is perceived in Libya, especially for foreign investment company's confidence in the Libyan auditing profession to help them in their various investment decisions.
- Through Libyan government economic development plans, the private sector has been encouraged to engage in major projects. As a result, significant growth in the public companies is expected in the coming years. In addition, the government has implemented policies on privatisation, thus, the need for auditors

and their services will increase, which in turn will affect the role of auditors and perceptions of their independence.

- The results of this study will assist Libyan organisations related to the audit profession when making or adjusting policies regarding issues related to auditor independence. In addition, it will help in identifying which factors might significantly affect perceptions of auditor independence in Libya.

Furthermore, the review of the relevant previous literature relating to auditor independence and the factors that might affect it (as will be discussed further in chapter four) revealed literature gaps that needed to be fully considered in order to gain better understanding of the nature of auditor independence and the factors that might have an effect on it. These issues include:

- The majority of previous studies on perceptions of auditor independence were conducted in developed countries. Therefore, the results of this study will contribute to the auditor independence research literature by providing updates on information with respect to perceptions of auditor independence in a developing country, namely, Libya.
- The conflicting results that some of the previous studies have arrived at with respect to the effect of certain factors on auditor independence.
- Most of the previous research relied either on quantitative or qualitative approaches instead of using.

1. 5: The structure of the research.

This study consists of ten chapters:

Chapter one addresses several issues including the identification of the area of study, research objectives and questions, the chosen research methodology and the structure of the study.

Chapter two presents an overview of some aspects of the Libyan environment in relation to its geography, population, history, culture, political system, economic developments and accounting and auditing profession and its related regulations.

Chapter three provides a review of the development, nature and the importance of auditor independence in order to fully understand the issue under investigation.

Chapter four deals with the theoretical arguments and empirical evidence of the most related factors which were considered to be suitable for the purpose of this study. These included the size of the audit firm, tenure of the audit firm, competition among audit firms, auditors' economic dependence on their audit clients, audit committees, status and financial condition of the audit client, personal relationships, financial relationships and provision of non-audit services (NAS).

Chapter five describes the research methodology in general. The two main paradigms, i.e. the Positivist and the Phenomenological, are going to be illustrated. In addition, a description of the three dominant research approached, i. e. the quantitative, the qualitative and the mixed research approach as well as the main methods of collecting data (questionnaire and interview) will be provided in this chapter.

Chapter six outlines the chosen research methodology and the justification behind that. Both quantitative and qualitative methods (mixed research methodology) are adopted in this study.

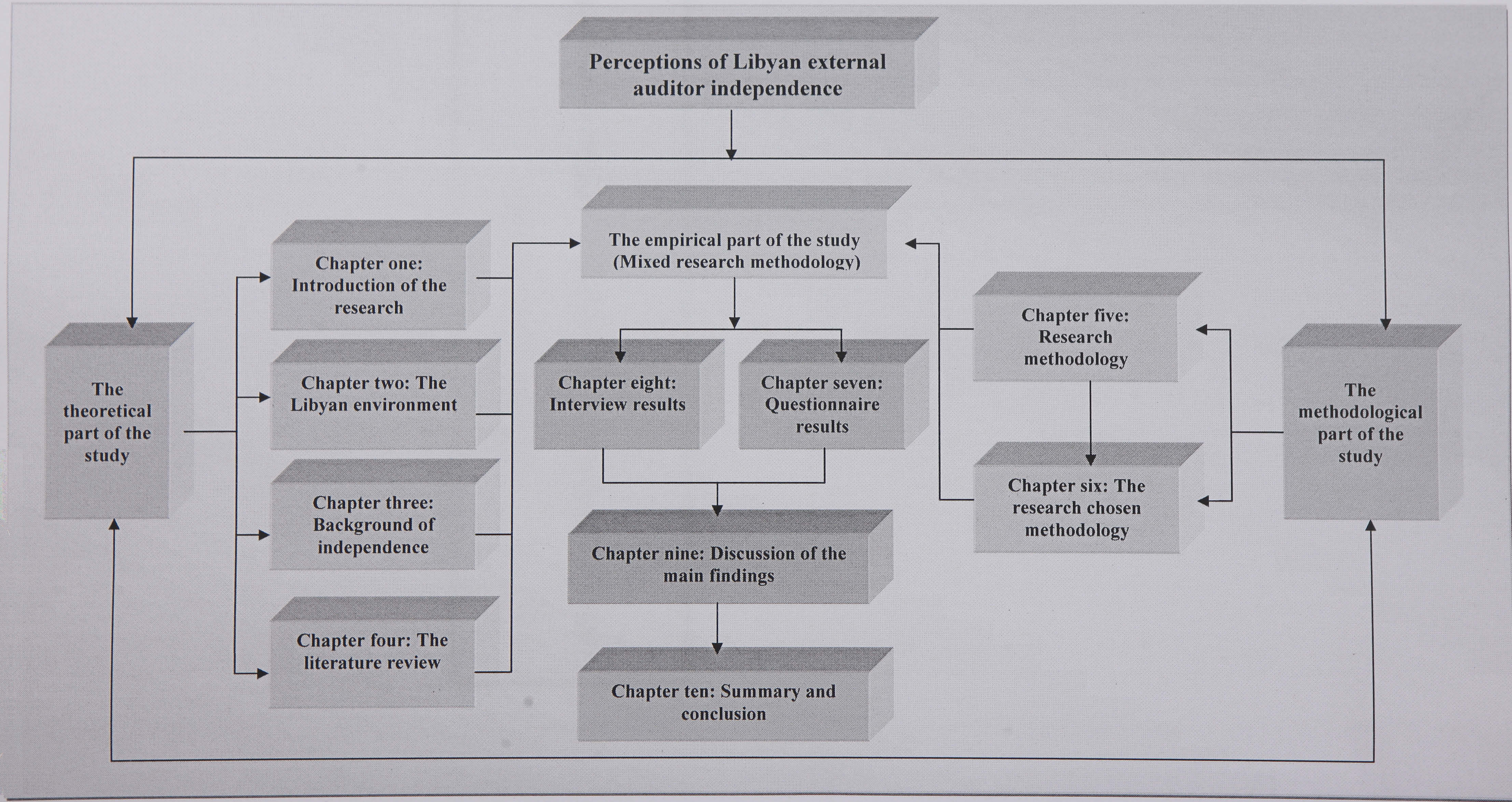
Chapter seven discusses the results from the analysed data from the questionnaire. These include results relating to part one, two and three of the questionnaire.

Chapter eight analyses the results derived from the analysed data of the semi-structured interviewees.

Chapter nine covers a broad discussion on the main finding of the study relating to the participants' perceptions from the four targeted groups with respect to the effect of the nine selected factors on auditor independence and to their attitudes about the accounting and auditing profession.

Chapter ten provides an overview of the whole study, presents a summary of the research findings, outlines the research recommendations, highlights the study's potential contribution to the accounting and auditing profession and literature and finally, explains the limitations of the study and suggests areas of further research.

Figure (1. 1): The structure and design of the study



Chapter two:

An overview of the context of the research

Chapter two:

An overview of the context of the research.

2. 0: Introduction.

The main purpose of this chapter is to provide an overview of the environmental characteristics within Libya in order to provide insight into the country's social, political and economic context. These interrelated factors may influence individual's values, attitudes and behaviour towards and about perceptions of auditor independence. Thus understanding these factors may be helpful in understanding and explaining perceptions of auditor independence held by the participants of this study in the Libyan context.

The chapter is divided into four main sections. The first section deals with the social and political environment. The second section outlines the Libyan economy (before and after the discovery of oil). The third section examines the accounting and auditing environment in Libya. The final section provides a brief summary of the chapter.

2. 1: The social and political environment of the context.

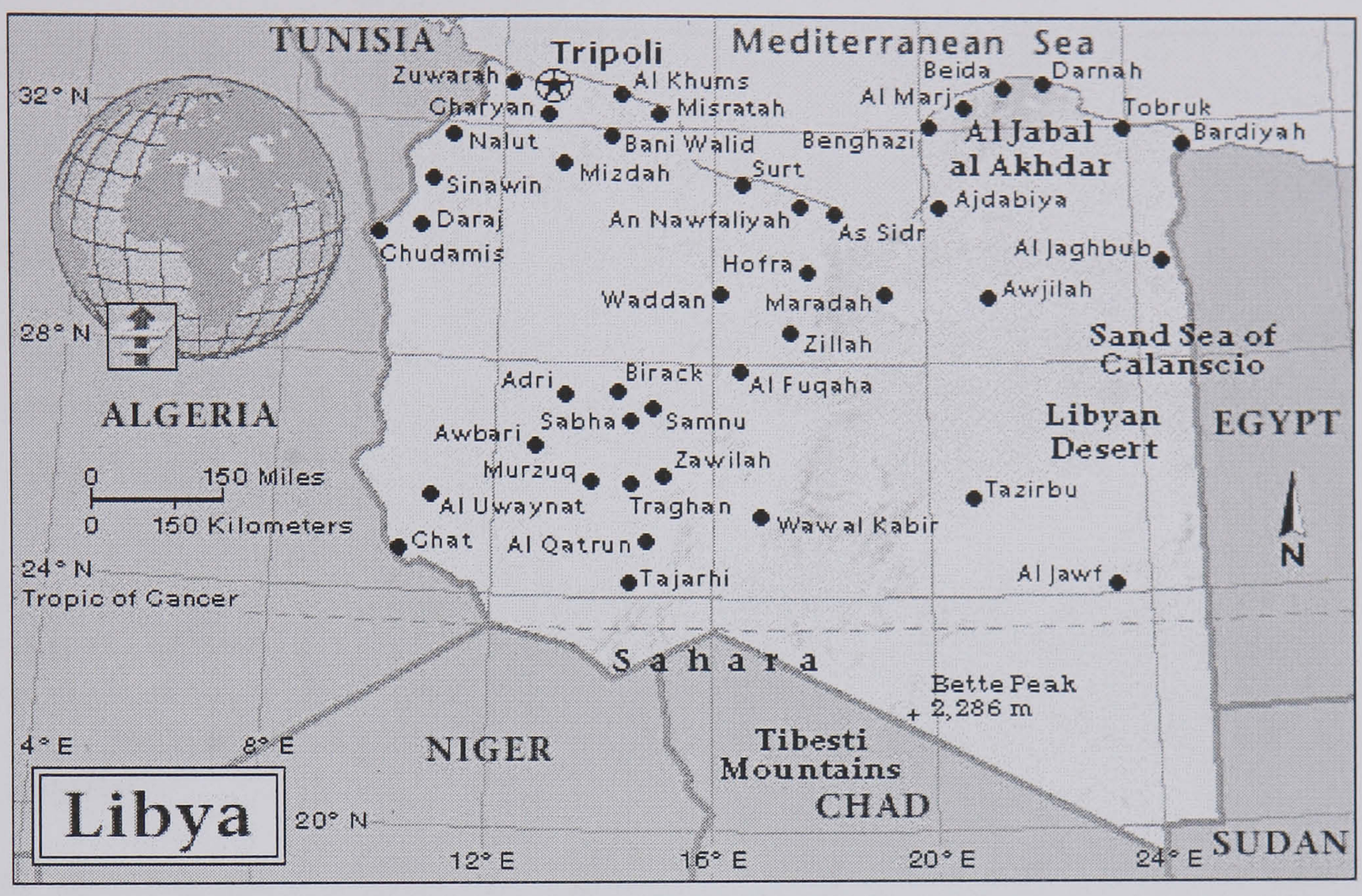
In order to gain better understanding of the concept of auditor independence and the perceived effect that some factors could have on it, it is very important to provide an overview of the social and political environment in the Libyan context as follows:

2. 1. 1: Geography and population.

The current official name of Libya is the Great Socialist People's Libyan Arab Jamahiriya (GSPLAJ). Throughout this study, it is referred to as "Libya". Libya is one of the Arab countries located in the North Central part of Africa. It is bounded (see figure 2.1) on the north by the Mediterranean Sea, on the east and south east by Egypt and Sudan, on the south and southwest by Chad and Niger, on the west by Algeria and on the northwest by Tunisia. The area of Libya is 1,759,540 Square Kilometres (1,092,882 Square Miles) which ranks it as the fourth largest state in Africa and the fifteenth largest in the world. Most of the country's land forms part of

the vast plateau of North Africa that extends from the Atlantic Ocean on the west to the Red sea on the east.

Figure (2.1) Map of Libya



Source: www.images.google.co.uk. Accessed on 20/10/2008

Libya, previously was divided into three regions; Tripolitania in the northwest, Cyrenaica in the northeast and Fezzan in the south. More than 90 per cent of the Libyan's land area is unoccupied land. In particular, 94.73 per cent desert, 3.94 per cent agricultural and 0.29 per cent forests. This fact created an unbalanced demographic situation where most of the population of the country centred in the main coastal cities such as Tripoli (the capital of Libya), Benghazi, Misratah, Az -Zawia and Darnah (Ahmad, 2004).

The last official census which was conducted in 2005 showed that the population of Libya is 6,000,566 (Libyan Secretariat of Economic and Planning 2007). Islam is the state religion and the official language of Libya is Arabic though English and Italian are used in trade. The climate of Libya is a Mediterranean one where temperature may reach up to more than $45C^0$ in the southern areas in summer time and drops to below $0C^0$ in the northern areas in winter.

2. 1. 2: Historical background.

The strategic location of Libya in the Mid-Mediterranean part of North Africa, occupying nearly 1,900 kilometres of coastline with the Mediterranean Sea, made it a

favourable target to several invasions throughout history. The history of Libya has been one of the long-time colonisation. For a period of about 3000 years the country was subjected to several waves of military invasion and colonisation including the Phoenicians, the Greek, the Roman, the Vandals and the Byzantines (Farley, 1971; Nyrop, 1973; Fisher, 1985; Ahmad, 2004).

During the first half of the 7th century, Libya as well as all of the other countries in the north of Africa was invaded by the Arab Muslims who overrun the country and captured Tripoli in 643 AD. Since then, Libya turned away from the identification with European world to the culture and influence of Islam and Arab (Nyrop, 1973). Steel (1967: 191) points out that:

> *"With the Arabic conquest, beginning in 643.AD, the history of Libya took an entirely different course, its culture was changed and so were its language, religion and population. In a few years the Arabs were able to do in Libya and the rest of North Africa what neither the Romans nor the Byzantines were able to do in centuries".*

During this era, the country was subject to different Christian invaders such the Sicilians (1146-1158), the Spanish (1510-1530) and the Knights of Malta (1530-1551) (Aghila, 2000). Because the Islamic religion and the Arabic language are the two dominant elements in Libya, the locals asked the Islamic Ottoman Empire (Turkey) to help them to be freed from the Christian invaders. As a result, the Ottoman fleet in 1551 bombarded and captured Tripoli and the Turkish domination over Libya lasted until 1911 when they were overthrown by the Italians.

On 29th September 1911, Italy, declared war on Turkey and on 3rd October 1911 its troops took most of the Libyan coastal cities such as Tripoli, Benghazi and Tobruk. The Italian colonisation of Libya lasted until the end of the Second World War. Following the defeat of the Italians and their Germans allies, the British and the French established their administration over the whole country. Tripolitania and Cyrenaica were under the British control whereas Fezzan was under the French control. This situation lasted until 24th December 1951 when the United Nations declared Libya as an independent United Kingdom ruled by King Idris of the Sanusi family.

On September 1, 1969, the monarchy was overthrown by a group of military officers who took power and gained control of the entire country. The Revolutionary Command Council (RCC) which formed a new government headed by an army

officer called Muammar Al Gadhafi declared the country to be a free and sovereign state called the Libyan Arab Republic. Freedom, Socialism and Unity were declared to be the principles of the revolution. In line with its intended populist and socialist character, in 1977 the official name of the country was changed to be the Socialist Peoples' Libyan Arab Jamahiriya.

2. 1. 3: Social and cultural aspects.

Libya and the Libyan people are considered to be part of the Arab World. 'Arab' refers to inhabitants in Africa (Morocco, Algeria, Mauritania, Tunisia, Libya, Egypt, Sudan and Somalia), Western Asia (Jordan, Palestine, Syria, Lebanon, Iraq, Saudi Arabia, Yemen, United Arab Emirates, Bahrain, Kuwait, Qatar and Oman) who speak Arabic and identify themselves with what is generally recognised as the Arab culture.

Similar to other Arab countries, Libya is characterised by the extended family, clan, tribe and village. These play a chief role in the community's life and people's relationships with each other (Agnaia, 1997). Furthermore, personal connections and kinship play a significant part in business and economic relationships and career promotion is though these rather than practical experience or academic qualification. In Arab societies, occasional loyalty to family, clan and tribe outweigh loyalty to profession or law (Ahmad, 2004). The tribal system's structure and perceived kinship was one of the most powerful bonds which every person inherited upon birth, irrespective of government, religion or race (Hudaib, 2003).

Families in Arab societies, consist of wide connections that usually include parents and their unmarried and married sons and daughters with their families as well as many other distant relatives such as grandparents, aunts, uncles and cousins. Commenting on the role of the strong bonds between individuals and their families or tribes, Agnaia (1996) states that because the individual is identified with his family, his good or bad deeds bring collective fame or shame to both his/her family and tribe. The individual is responsible for the wellbeing of his family and his/her acts are carried out in terms of his/her family's needs. Thus, the behaviour of the individual in various life situations is essentially an expression of his/her family patterns. The individual has to obey and respect the rules and traditions of his/her family, clan, tribe and village.

Besides family, clan and tribe as the basis of the development of the Arabian social characteristics, Islamic religion is another important factor that plays a vital role in the community's life and people's relationships with each other in the Libyan culture. In this vein, El-Fathaly (1977: 12) states that:

> *"The strong role of religion in a traditional Islamic society like that of Libya has produced a society with special features. Conservative attitudes have been predominant in every respect. People's values and behaviour have been a function of their religious background and attachment; hence, evaluation and acceptance of innovation and change have been subject to religious beliefs and notion".*

Most of the values and ideals of the Libyan society are driven from the teachings of the Islamic religion that supports integration and social harmony, equality among people, social justice, and tolerance to other religions, encourages thrift, induces hard work and permits trade but prohibits usury (Kilani, 1988; Ahmad, 2004).

2. 1. 4: The Political System.

In many countries, the political system and the type of the government would have an essential influence on the societal behaviour. For example, more freedom for the public to express their views and to take required actions would be expected to be provided by a democratic government. Whereas adherence to rules and less freedom for the society to convey thoughts would be expected to be found in a communist regime (Hudaib, 2003). In order to gain better understanding of the concept of the auditor independence, it is important to provide an overview of the political system of the Libyan context.

Before the independence of Libya on 24th December 1951, the country had witnessed one of the longest period of colonisation. As previously mentioned, the Libyan region was ruled and governed by several invaders who implemented their own political systems. The tribe system, however, was dominant, and each tribe was to some extent free to run its own affairs as long as it was not involved in active political oppositions and payed the required tax (Buzied, 1998).

On 24th December 1951, Libya was declared an independent united kingdom, with federal constitution. According to the federal constitution promulgated in October 1951, the state of Libya was a federal monarchy ruled by king Idris Al-Sanusi and the country was divided into three regions; these were Tripolitania (in the north west), Cyrenaica (in the North east) and Fezzan (in the south) (Kilani, 1988). In April 1963,

legislation designed to transform Libya from a federal into a unitary state was introduced by the federal government. This led to dividing the country in to ten administrative areas instead of the three previous regions.

On 1st September 1969, the Libyan political system was changed by a group of military officers who called themselves a Revolutionary Command Council (RCC) and proclaimed the Libyan Arab Republic (LAR). Their provisional constitution stated that supreme power would remain in the hands of the RCC. Arab nationalism was the main force underlying the revolution's policies. This led to strict laws requiring businesses operating in Libya to be controlled by Libyans, with banks being particularly affected, and most of the European and American Expertises were replaced by Arabs (Kilani, 1988).

In November 1976, a provision under a decree promulgated by the RCC was made for the creation of the General National Congress of the Arab Socialist Union (ASU) which was the country's only permitted political party. Afterwards, the ASU developed into the General People Congress (GPC) in 1977 when Libya became a "state of the Masses" or a Jamahiria, after the Declaration of the people's Authority on the 2nd of March of that year. This declaration became from then on the cornerstone of the Libyan political system based on the "Third Universal Theory" of the Green Book[1]. It includes the following points: a) the official name of Libya will be the Socialist Libyan Arab Jamahria; b) the Qur'an is the law of society; c) popular direct authority is the basis of the political regime of the country. The people practise their power through Basic People Congresses (BPC), people committees, trade unions, professional unions and the GPC and d) the defence of the homeland is the responsibility of all men and women citizens. According to this declaration, the RCC disappeared and the GPC was established. As well, the Council of Ministers was replaced by the General People's Committee whose members were Secretaries of departments.

[1]- Green book is a political work published by Colonel Mummer al Qaddafi, the leader of Libya, covering political, economic and social problems and solutions in Libya. It is based on the third Universal Theory as a new way rather than capitalism theory in western economies and classical theory of Marx in former eastern economies.

2. 2: The economic environment of the context.

The need for the external auditor's services in any society are influenced to a great extent by the stage and type of the economic development in that society which in turn affects the meaning of auditor independence (Hudaib, 2003). This section will analyses the development stages that the Libyan economic system had witnessed. These include two main stages; the Libyan economy before the discovery of oil and the Libyan economy after the discovery of oil.

2. 2. 1: The Libyan economy before the discovery of oil.

Prior to the discovery of oil in Libya in 1959, the country was described as one of the poorest countries in the world. The Libyan economy during this period as many economists mentioned was a defect economy. For example, Benjamin Higgins (1959), cited in Bait El-Mal et al, (1973: 84), who worked as an economic advisor to Libya and its prospects for development in the early 1950's, stated that:

> *"Libya's great merit as a case study is as a prototype of poor country. We need not construct models of an economy where the bulk of the people live on a subsistence level, where per capita income is well below $50 per year, where there are no sources of power and no mineral resources, where agricultural expansion is severely limited by climatic conditions, where capital formation is zero or less, where there is no skilled labour supply and no indigenous entrepreneurship...Libya is at the bottom of the range in income and resources and so provides a reference point for comparison with all other countries. ...if Libya can be brought to a stage of sustained growth, there is hope for every country in the world".*

Before the discovery of oil, nearly 80% of the Libyan population were engaged in agriculture and animal farming while in the main time, only few opportunities were available to the locals, and those were mainly confined to textile and handicrafts. The few large enterprises in the country at that time were owned and managed by Italian expatriates. This situation of the Libyan economy as many authors suggested was caused by the Italians during their colonisation of the country. Commenting on this, Bait El-Mal et al (1973: 85) mentioned that:

> *"The country's background had the unfortunate result of reserving most of the skilled jobs for Italian immigrants as this group appeared to be more qualified than the indigenous population. Very little seems to have been done to prepare the country for self-government. The educational and technical training of Libyans was neglected; to a large extent they were excluded from administrative positions in government and private enterprise".*

For nearly five decades prior to the discovery of oil (1911-1960), the Libyan budget was operating in deficits to an extraordinary extent. These deficits were reduced by grants, expenditures and investments of foreign governments mainly from the UK government and the USA government (Mahmud, 1997). Libya in that period was not only in need of monetary support; the rate of illiteracy was high (94%) with very limited skilled labour (Wright, 1982; El Fathaly, 1977). Therefore, the country depended heavily on advisors, including technicians from the USA, the UK and the United Nations in establishing its different systems (Abbas, 1987; Kilani, 1988).

Overall, the Libyan economy during the period before the discovery of oil was heavily reliant on two main sources of finance for public expenditures; these were the domestic revenues and the foreign grants and aid. Consequently, due to the deficits of these two main financial resources, the economic development was restricted to a few programs supported by some foreign countries with the major help being provided by the UK and the USA.

2. 2. 2: The Libyan economy after the discovery of oil.

Following the discovery of crude oil and natural gas in commercial quantities in the late 1950s, the Libyan economy grew rapidly. This made the oil sector as the major source of revenues for the government budget and contributed to the bulk of total resources. As a result, extraordinary modifications to all aspects of life in Libya were made. Libya in a short time after the discovery of oil had changed from one of the poorest countries in the world to become one of the richest countries. Financial aid was no longer required and dependence on foreign grants and aid, however, was replaced by dependence on foreign oil companies who rushed to invest in the country (Bait El-Mal et al, 1973). In 1955 the Libyan government, in an attempt to encourage oil companies to explore and carry out oil development operation enacted the Libyan Petroleum Law (Abbas, 1987).

Crude oil and natural gas revenues have had a tremendous impact on the development of the Libyan society. Gross Domestic Product (GDP) and per capita income increased substantially, the relative importance of the other economic sectors (agriculture, industry and services) changed and the surplus in the balance of payment increased from one year to the other making it the most important source of capital formation (Mousa, 2005). As a result, the government was encouraged to

channel these revenues towards the growth of the national economy with a serious of ambitious economic development plans.

The structure of the Libyan economy after the revolution of 1969 however, has witnessed dramatic changes due to the belief of the new leaders that the international foreign companies who were operating in Libya were exploitative and needed to be nationalised. Therefore, a number of steps were taken by the new administrations to reorganise the dominant state of the economy. The socio-economic policy that was adopted had changed the country from capitalism to socialism. State intervention in the economy has increased and the expanding of the public sector and reduction of the private sector were notably performed by the government. Commenting on these changes, Kilani (1988: 55) points out that:

> "*The whole private sector was to be completely abolished by the end of 1981, to be replaced by people's economic committees. Indeed, the private sector is being dismantled progressively and inexorably, and progress has now reached the point where private bakeries, butchers, and barber shops have been taken over by the public sector*".

Due to the crises that the Libyan economy had faced during the late 1980's and 1990's as a result of the worldwide sharp drop of oil prices, the state introduced a series of liberalisation measures for the first time since 1969 which included a significant role for the private sector. The main objectives of these measures were to cut public spending, to gradually withdraw subsidies and to promote and encourage the private sector initiatives (Vandewalle, 1998). For example, in 1992, the government issued the Act No 9 to regulate and enhance the role of the private sector activities in the economy. According to this Act, new bases for individuals to engage in different activities as sole owners or in partnerships were provided. Act No 9, specified the areas of which the private sector and individuals can operate in. These include agriculture, industry, commerce, tourism, transport, finance and the private practice of professionals.

Furthermore, in order to attract foreign investments and to accelerate the social and economic development, Law No. 5 of 1997, relating to encouraging foreign investment was enacted by the GPC. Specifically this Law allows for 100% equity ownership of companies licensed under the Law. The provisions of Law No 5, attempts to lower the tax and customs fee burden on qualifying companies. Moreover,

in 2004, the government commenced a program of privatisations of 360 state-owned enterprises (US & Foreign Commercial Services, 2007).

As a result of these development plans and decisions to reorganise the structure of the Libyan economic system, the GDP has remarkably increased during the period between 2000 to 2005, as can be seen from table 2.1 which illustrates the contribution of different sectors in the Libyan GDP for that period. The socialist-oriented economy of Libya depends primarily upon revenues from the oil sector, which consists of practically all export earnings and over half of GDP. The oil revenues and a small population gave Libya one of the highest per capita GDP in Africa (US$12.404 in 2006) with a real GDP growth rate of 5.6 % for the same year (US Department of State, 2008).

Table (2.1): The Libyan GDP by sectors over the period from 2000 to 2005 (in Libyan Dinar[1])

The Economic Sectors	2000	2001	2002	2003	2004	2005
Agriculture, Forestry & Fishing	1437.7	1392.0	1348.8	1375.8	1439.3	1554.5
Oil and Natural Gas	7761.9	6784.2	13630.6	18940.5	27228.0	39937.5
Mining and Quarrying	293.9	306.7	387.1	360.2	411.0	495.5
Manufacturing	889.7	877.8	813.1	764.7	761.1	799.0
Electricity, Gas and Water	270.0	284.6	293.7	303.1	334.4	379.0
Construction	1013.9	1063.4	1342.3	1249.0	1424.9	1718.0
Trade, Restaurants and Hotels	1685.9	1882.4	2089.5	2193.9	2392.1	2797.9
Transportation, Storage and Communication	1213.9	1299.3	1429.2	1515.0	1663.6	1947.5
Finance insurance and Ownership of Dwellings	357.2	377.2	414.9	439.9	478.9	560.1
Ownership of Houses	475.5	499.0	515.0	534.1	591.6	614.1
General Services (includes Education and Health)	2665.8	2901.4	3222.3	3606.5	4286.0	4682.4
Other Services	391.5	411.1	427.5	448.9	475.5	539.3
Total GDP	18456.9	18079.1	25914.1	31731.8	41486.2	56025.2
% of Oil and Gas Sector to Total GDP	42.05	37.53	52.60	59.67	65.63	71.28
% of Other Sectors to Total GDP	57.95	62.47	47.40	40.33	34.37	28.72

Sources: Central Bank of Libya (2006).

2. 3: Accounting and auditing environment in the context.

The purpose of this section is to present an overview of the accounting and auditing profession in Libya in terms of its development and related regulations in order to gain better knowledge of the status of the profession which in turn might help in understanding how auditor independence is being perceived in the Libyan context.

[1] Exchange Rate L.D 1= US$ 0.78 (Central Bank of Libya, 2006).

2. 3. 1: Development of accounting and auditing.

Various colonial systems have influenced the Libyan social, political and economic environment, including the accounting and auditing environment. According to Kilani (1988) the historical development of accounting knowledge and the profession in Libya was the product of the intervention of foreign countries and companies in its internal affairs.

The Ottoman Empire occupied Libya for more than three centuries (1551-1911). During this period as Buzied (1998) points out, there was no strong evidence that indicates whether modern accounting or auditing was implemented or not. He argued that accounting during this period of colonisation was confined to simple book-keeping (Single entry) in order to compute and meet the requirements of the Tax and Zakat[1]. Specifically, Buzied (1998: 128) stresses that:

> *"During the Turkish rule there was no organised or fixed taxation system: most of the tax systems (methods and basis) were imposed according to the personal judgement of the Pasha or Shaik".*

During the Italian colonisation era (1911-1943), Libya was politically and economically considered as an extension of the Italian mainland (Ghanem, 1982). Therefore, Italian legal and management systems were implemented and were to a great extent the same as those in Italy. The accounting system was not an exception. The Italian accounting profession and the Italian tax laws were the two main factors that contributed to the formation of the shape of the accounting system in Libya (Kilani, 1988). As a result of this consideration, the Italian enterprises as well as the Italian government departments brought with them their accountants who implemented the same Italian accounting profession and practices in Libya. During the Italian occupation, however, financial accounting was the only branch of accounting that was practiced, and there was no evidence of any auditing or other professional activities (Kilani, 1988).

The second factor that had an impact on the development of accounting in Libya was the 1923 Italian tax law. According to this law, each registered company was required to provide financial statements and other accounts at the end of each year to the tax authority (Bait El-Mal, 1981). Despite that this law was not particularly

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[1] - Zakat is an annual payment which is obligatory for all Muslims. It is payable on all kinds of wealth that has the capacity to grow such as gold and silver, cash, land's products and fruits (Buzied, 1998).

designed for the Libyan context, Buzied (1998) contends that there was evidence that it was in effect until 1968. He suggests that this is an indication that the accounting system and practices in Libya continued to be indirectly influenced by Italian accounting systems. The Italian accounting practices, however, did not last for a long time because most of the Italian enterprises and government departments did not employ Libyans in administrative and accounting jobs. The educational and technical training of the native people was neglected during the Italian colonisation era (Bait El-Mal, et al, 1973).

After the Italians were defeated in the Second World War, the British and the French took control of administering Libya until its independence in late 1951. During this period, there were no major changes in the economic or policy aspects and the Italians continued to control most of the country's enterprises. Therefore, neither the accounting profession nor the accounting practices have witnessed any important changes (Buzied, 1998). After the independence of the Libyan state in 1951, the Libyan accounting profession witnessed dramatic changes which were widely influenced by several factors. These factors include accounting education, accounting academics, international accounting firms, international enterprises and the rapid changes in the Libyan social, economic, political and legal environment. These influential factors have caused the Libyan accounting profession to follow the same path as its counterparts in the UK and the USA (Kilani, 1988).

Due to the exploration of oil and natural gas in the late years of the 1950's and the start of exporting in the early years of the 1960's, the country has witnessed huge development that led to businesses in both the private and public sectors. Consequently, investors, creditors, management and government agencies needed much more reliable financial information in order to help them in their decision-making process (Kilani, 1988). As a result, many foreign accounting firms from different countries such as Egypt, Italy, the USA and the UK opened branches in Libya in the 1960s (Bait El-Mal et al, 1973). These foreign enterprises were free to implement their home country accounting policy standards and practices. It has been argued by many authors that these accounting philosophies of the original companies continued to be applied in the Libyan enterprises even after being nationalised (Bait El-Mal et al, 1973; Kilani, 1988; Buzied, 1998).

As a result of the increase in Libyan graduate accountants from the Libyan university and the return of others from abroad who graduated in the 1970's, many Libyan accounting firms were established. There was an increased number of accounting firms who were not properly controlled in terms of regulations related to accounting and auditing standards and procedures. This led to an urgent need to set up a professional body which could take responsibility for developing a general framework of accounting and auditing in Libya. To meet this demand, the Libyan Accountants and Auditors Association (LAAA) was established in June 1975 under law No. 116 of 1973 with the aim of achieving the following objectives:

1. To organise and improve the conditions of the accounting profession and to raise the standards of accountants and auditors professionally, academically, culturally and politically.
2. To organise and participate in conferences and seminars related to accounting internally and externally and to keep in touch with new events, scientific periodicals, lectures and so on.
3. To establish a retirement pension fund for its members.
4. To increase co-operation between its members and to protect their rights.
5. To take action against members who violate the traditions and ethics of the profession.

Although it has been more than thirty years since the establishment of the LAAA, there is a general agreement among accountants, academics and researchers that most of these objectives have not been achieved yet. For instance, several remarkable points have been concluded by many researchers such as failure to develop accounting and auditing standards or a code of ethics, the limited role in conducting effective research programs and the weak professional control over accounting practices and policy and deficiencies in monitoring accounting education (Kilani, 1988; Bengharbia, 1989; Mahmud, 1997; Buzied, 1998; Ahmad, 2004). The main possible reasons for this limited role of the LAAA as Mousa (2005) suggests are the small size and the limited authority of the LAAA.

In addition to the LAAA, the Institute of Financial Auditing[1] (IFA) is another governmental body that has the responsibility for auditing all of the government organisations' accounts, organisations aided or receiving loans from the government, any other corporations to which the state contributed more than 25 % of its capital and foreign companies operating in Libya. This institute is directly responsible to the GPC to whom it should report. In practice, and for many reasons such as the shortage of qualified staff, delay in auditing the accounts of the above organisations has become a major problem for the IFA. Therefore, most of these tasks are being transferred to external auditors.

2. 3. 2: Related accounting and auditing regulations.

Accounting and auditing practices are regulated by direct legislation in many developing countries (Saleh, 2001). Libya is not an exception. The major impact on accounting and auditing practices in Libya has come from several regulations such as the Libyan Commercial Code (LCC), Income Tax law, Petroleum law, and the Accounting and Auditing Profession law. A brief overview of these laws will be provided in this section as follows:

The Libyan Commercial Code:

The Libyan Commercial Code (LCC) was enacted on November 1953, and has since been partially amended a number of times in order to meet the changing requirements of Libyan society. The LCC was first issued after Libya was granted its independence in 1951 to organise trading activities. This law was designed to cover seven commercial aspects: 1) Merchant and commercial activities; 2) Commercial contracts; 3) Banking transactions; 4) Negotiable instruments; 5) Commercial papers; 6) Commercial companies and 7) Bankruptcy and its prevention.

According to the LCC every enterprise has to keep a number of records such as a Journal, Inventory and Balance Sheet. The Journal should include any daily transactions related in any way to the enterprise's activities as well as its monthly

[1] - The IFA through out its development has witnessed several changes in terms of its name, objectives and to home it should be responsible. At first it was established by law No. 31 of 1955 and was called the State Accounting Bureau (SAB). In 1988 and under law No. 7, the SAB became the Institute of Public Follow-Up (IPFU). IN 1996 by law No. 11, the IPFU changed to be the Institute of the public Control (IPC). Law No. 30 of 2001 renamed the IPC to become the Institute of Public Control and Investigation (IPCI). Recently, the IPCI once again has changed its name by law No. 3 of 2007 to be the Institute of Financial Auditing (IFA).

total expenditures. The Inventory and the Balance Sheet Book consists of an annual inventory list, a profit and loss account and a balance sheet.

In order to ensure that all the enterprises' accounts, records and financial statements are correct, the LCC required that every corporation should have an independent Controlling Committee consisting of three to five members (shareholders or others). This Committee is responsible directly to the shareholders and its main purpose is to *observe* the company's management to ensure that its activities and responsibilities are carried out in accordance with the existing related laws. Specifically this Committee has to make sure that the company's accounting system is operated in accordance with accounting rules and procedures as specified by law and the company's financial statements agree with the data in the company's records. To meet these obligations, the LCC required that at least one of the Controlling Committee members should have accounting knowledge.

Although the LCC drew attention to accounting practices and methods and provided a broad framework regarding some of the accounting aspects, only little detail on the form and design of the accounting records have been given. In addition, the principles and standards that should be adopted when practising the accounting and auditing were not specified (Buzied, 1998).

The Libyan Income Tax Law:

As discussed earlier, the 1923 Italian Income Tax Law was implemented and used in Libya with some modifications to suit the Libyan situation until 1968 when the first united Libyan Income tax law was issued on the 14th of April 1968. In 1973 the 1968 Income tax law was eliminated due to the enactment of the Income Tax Law No. 64 of 1973 which in turn was cancelled out in 2003. Currently, the Libyan income tax law No. 11 of 2003 is applied and consists of 112 Articles divided into five main parts: 1) General Provisions (Articles 1-34); 2) Tax on Individuals and small Businesses (Articles 35-71); 3) Tax on Companies (Articles 72-80); 4) Penalties (Articles 81-89) and 5) Final Provisions (Articles 90-112).

According to the Libyan Income Tax law, enterprises are required to provide the tax authority with their balance sheet, trading account, profit and loss account, deprecation statement, and detailed statements of the company's expenses that are included in the profit and loss account. The application of Libyan income tax law has

had an impact on the companies accounting practices in that several corporations have adopted tax guidelines and requirements not only for tax purposes but for internal and external financial reporting as well (Bait El-Mal et al, 1988; Saleh, 2001).

The Libyan Petroleum law.

The Libyan Petroleum law (LPL) No. 25 was enacted in 1955 as an attempt by the Libyan government to encourage the international oil companies to invest and explore for oil. According to Buzied (1998), the LPL expected to have an impact on the evolution and development of accounting practices in oil companies in particular and in non-oil companies in general through accountants and auditing firms working in both sectors. He argued that the country lacked qualified and experienced accountants by which the country could audit and impose Libyan accounting systems during that period of time (1950s). This led to all of the oil enterprises adopting their home countries' accounting systems. This viewpoint was shared by Kilani (1988) who discussed the influences of the LPL on the accounting practices in Libya. In this context, Kilani (1988: 150) stresses that:

> *"It (LPL) explicitly opened the door for international accounting practices to be adopted by oil companies operating in Libya. In many instances, the law stated that oil companies might use the oil accounting practices applied in other oil exporting countries".*

Although most of the accounting records and financial statements and their format and contents have been specified by the LPL No. 25, the oil companies were left free to adopt any accounting practices that suited their interests (Buzied, 1998).

The Libyan Accounting and Auditing law.

The first law that dealt with the accounting and auditing aspects in Libya was law No. 116 of 1973. On 20th December 1973 the Libyan government enacted law No. 116 of 1973 in order to regulate and organise the accounting and auditing profession. This law was divided into eight sections. These include: 1) the establishment of the Libyan Accountants and Auditors Association, 2) registration of accountants, 3) exercise of the profession, 4) fees, 5) pension and contribution fund, 6) obligations of accountants and auditors, 7) penalties and 8) general and transitional provisions.

According to Articles No. 32, every accountant who wants to practice accounting and auditing in Libya has to be registered as a chartered accountant with the LAAA. There are two classifications of membership of the LAAA. The first includes working accountants and auditors which is further broken down into two groups of accountants and assistant accountants. The second membership classification is that of non-working accountants and auditors. This type is also divided into two groups of non-working accountants and auditors and non-working accountants and auditors assistants. In addition, Articles No. 24, 26, and 28 of the law requested that every accountant is registered with the LAAA have to meet several requirements. These include: a) hold Libyan nationality, b) have a bachelor's degree in accounting, c) Enjoy political and civil rights, d) have the necessary conduct, reputation and respectability required for the profession and e) have five years' experience of accounting work in accounting office after education.

Accountants who have a bachelor's degree in accounting without experience can be registered in the working assistants group while accountants who have a bachelor's degree in accounting and do not intend to practice the profession will be registered as non-working accountants. Accountants who hold a higher degree than a bachelor's degree in accounting are exempt from the experience requirement if the higher degree requires four or more years of study and training. Those accountants who are listed in the working accountants' registration have the right to certify accounts and balance sheets of any type of enterprises and taxpayers. The kind of services that accounting and auditing firms can offer in Libya include preparing financial reports (financial statements), auditing, tax services, offer bankruptcy, management consulting, accounting system design and installation.

In an attempt to maintain auditor's independence (the main concern of the current research) in the Libyan context, law No. 116 of 1973 prohibited auditors from combining their status as public accountants with certain activities. These include: a) a ministerial position, b) any public post, permanent or temporary, with salary or compensation (unless he was permitted to do so according to the provision of this law), c) any commercial activities and d) all other activities which are not compatible with the profession.

In addition to these prohibited activities, it is unlawful for auditors to advertise or to use mediators in order to practice the accounting and auditing profession, and all of

the members of the LAAA are required to meet all of the obligations that may be imposed on them by the law and by the ethics of the profession. The independence of the Libyan auditors in practice, however, is questionable. According to Kilani (1988), the appointment of the external auditors in Libya depends to a great extent on social and family ties.

Law No. (134) of 2006 for establishing the Libyan Stock Exchange (LSE).

On 3ed June 2006 the Libyan General People's Committee issued law No. 134 of 2006 for the purpose of establishing the Libyan Stock Exchange as a joint stock company under direct control and observation of the General Public Committee of the Investment, Economic and Commerce with capital of 20 million LD, divided into 2 million shares with a nominal value of 10 LD per share. Due to its recent establishment, the LSE has signed agreements with several countries' Stock Exchanges in order to develop the performance of the LSE's departments, systems and employees through conducting different workshop courses both locally and abroad. For example, on 18th October 2007, a cooperation agreement was signed in London between the LSE and the London Stock Exchange.

The listed market securities include the National Mills and Fodder Company, the United Insurance Company, Bank of Deserts, the Libyan Insurance Company, Sahari Bank and the Hay Alandalus Domestic Bank. The main purposes and objectives of the LSE as stated in law No. 134 of 2006 are as follows:

1. To prepare an appropriate investment environment in order to achieve the general welfare.
2. To encourage the reservation habit and raise the investment knowledge in order to direct the reserves to the most beneficial sectors.
3. To control and observe financial transactions.
4. To serve the social and economic development.
5. To contribute in the process of privatisation of state owned enterprises.
6. To conduct research and collect statistical data about the listed enterprises.
7. To establish the required standards to ensure and secure the correctness of the financial market's transactions.

8. To develop the competence of the LSE's employees by conducting the necessary training.

9. To develop cooperative relationships with other regional and international financial markets.

According to Article No. 55, until the establishment of national accounting and auditing standards, all listed enterprises' financial reports have to be prepared according to the international accounting and auditing standards.

Law No. 3 of 2007 for establishing the Institute of the Financial Auditing (IFA).

On 22nd January 2007, the Libyan GPC enacted law No. 3 of 2007 to establish the IFA[1] as an independent institution directly under the control of the Libyan GPC. The main objective of the IFA is to audit the state organisations. This includes all of the government secretaries (Monasteries), departments, embassies and state companies. In addition, the IFA is responsible for auditing any organisation aided or receiving grants or loans from the government, organisations that the state contributed more than 25 % of its capital, social organisations supported by the state and foreign companies and its subsidiaries that operate in Libya. The IFA has the right to make contracts with external auditors to carry out the task of auditing state enterprises' financial statements. In such cases the external auditor will be directly responsible to report to the IFA instead of the management of these enterprises.

To be a member of the IFA, an accountant must meet a number of requirements. These include: a) hold Libyan nationality, b) have a bachelor's degree in accounting, c) be active over political and civil rights and d) be of good conduct, reputation and respectability, commensurate with the profession and agree to perform with complete honesty and sincerity.

Despite the fact that law No. 3 of 2007 has requested from all of the above organisations to prepare annual financial reports including an income statement and a balance sheet. It did not explicitly specify any particular accounting or auditing standards that have to be adopted.

Overall, it can be seen that some of these laws have been issued a long time ago and some of them have not been modified to take into consideration the economic,

[1]- For more details of the history of the development of the IFA, refer to page 23.

political, and social changes in the Libyan environment. In addition, some of these laws were inherited or partially translated from the US, the UK or the Italian accounting laws and systems. Therefore, the Libyan systems and laws that related to the accounting and auditing profession and its practices, needed to be totally or partially amended in order to take into account the dramatic changes that the country has witnessed during recent decades.

2. 4: Summary.

This chapter has provided an overview of some aspects of the Libyan environment in relation to its geography, population, history, culture, political system, economic developments and accounting and auditing profession and its related regulations.

It was revealed that Libya is an Arab developing country located in the mid-Mediterranean North Africa with relatively small population compared to its large area. The official language is Arabic and Islam is the only religion in the country. Libya was subject to several waves of invasions throughout its history until 1951 when it gained its independence. The country's political ideology is based on the thoughts of the Green Book theory which established Libya as the state of the masses or Jamahiria where people have direct control of the country's affaires.

Libya after the discovery of oil in the late 1950_s had changed from one of the poorest countries in the world to become one of the richest countries. Crude oil and natural gas revenues have made a tremendous impact on the development of the Libyan society. The accounting and auditing profession in Libya is oriented towards the accounting and auditing environment and the private sector of the UK and the USA. This was due to the huge impact of these two countries on the profession through several channels such as oil companies, aid agencies, constriction companies and accounting and auditing education systems. Some of the Libyan regulations that relate to the accounting and auditing profession and its practices were issued a long time ago and need to be amended in order to take into account the socio-economic changes that the country has witnessed in the last few decades.

Chapter three:

Auditor independence, its development, nature and importance

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3. 0: Introduction.

For several decades auditor independence has been one of the most researched subjects in the accounting and auditing literature. In order to fully understand its development, nature, meaning and importance, this chapter is organised into four sections. The first section commences with an attempt to trace the development of auditor independence since its early recognition. The second section discusses the nature and meaning of auditor independence. The third section illustrates the importance of auditor independence. Finally, the fourth section provides a brief summary of the contents of the chapter.

3. 1: Development of auditor independence.

Discussing the foundation of the concept of auditor independence, Pany and Reckers (1983), emphasise that the concept is closely related with the existence of the auditing profession itself. They mentioned that the purpose of the external auditor's work, i.e. an independent audit, arises from the need for reliable financial information. An audit of financial statements has been defined by the American Accounting Association (AAA, 1973) as:

> *"A systematic process of objectively gathering and evaluating evidence relating to assertions about economic actions and events in which the individual or organisations making the assertions and established criteria, and communicating the results to users of the reports in which the assertions are made"* (Committee on Basic Auditing Concepts, 1973, cited in Porter et al 2004).

The main objective of auditing financial statements (e.g. statement of financial position, income statement and statement of cash flow) is to allow the auditor to issue an opinion on whether the overall financial statements were prepared in accordance with an identified financial reporting framework normally defined as Generally Accepted Accounting Principles (GAAP) (Soltani, 2007, Millichamp and Taylor, 2008).

Auditor independence has evolved through the development of the auditing profession which in turn is closely interwoven with that of accounting. Although there is no accurate data available to indicate where accounting was initially practiced, Kazas (1991) attempted to trace the development of accounting from the ancient times to the 18th century. In this regard, he mentioned several events relating to the historical evolution of accounting and auditing as follows:

1 - The first traces of commercial and accounting laws can be found among the Ninevites of Babylonia circa 3000 B.C. where persons called secretaries who noted all important transaction on plaques and then legalised them with their signatures.

2 - In ancient Egypt, audits were initiated by the state itself in order to protect the interests of the Pharaoh. A group of people called Epistates (overseers) was instituted and trained in the temples to monitor and record the grain harvest which constituted the main source of tax funds and the Pharaoh's primary source of revenue.

3 - The first proof of the practice of financial control appeared in ancient Greece in about 6th century B.C. In that time an institution called the Logistes (accountant) was established in Athens to supervise the management of public funds and was entrusted to bring to justice all those who were apprehended in some unlawful act. Also in 400 B.C. business accounts were required by law to be published for the first time in Athens.

4 - In ancient Rome, consuls, censors and appraisers were commended to oversee the public finances. They had to examine the accounts in the provinces and supervise the public treasury and were required at regular intervals to submit all their accounts to the senate for approval.

5 - Early in 13th century, the Chancellor of the Exchequer in England used a procedure of internal control that required the accounts to be maintained and monitored by two different people who had to keep two parallel sets of book. Also, the term of "auditor" appeared for the first time in 1285 during the reign of King Edward I. Auditors were those who served the king as administrators and chamberlains and their task was to keep regular books and to be accountable for their work.

6 - The 15th century witnessed the appearance of the double-entry bookkeeping method in Italy. The first fully documented use of this method was observed in the books of the

Soranro brothers in Geneva in 1406 which was followed a little later by the famous financial treatise of Luca Pacioli.

7 - In the late 17th century in France, the Court of Auditors was set up in Paris where its director for many years was the distinguished mathematician Bertrand-Francois Bareme, who wrote a book on the double- entry bookkeeping method. The court of auditors frequently assigned persons to conduct bookkeeping checks and valuations by experts (Kazas, 1991).

Up to and including 18th century, auditing had little commercial application and the role of the auditing profession was almost exclusively confined to public finance. This was mainly due to the fact that up to the end of 18th century, with very few exceptions, there were no private businesses with considerable accumulations of capital or involved in important business activities. Industry was primarily based on relatively small enterprises that were frequently owned and managed by the same individuals. Therefore, there was no need for the business managers to report to the owners on their supervision of resources and no need for such reports to be audited (Porter et al, 2004).

The industrial revolution, in the late 18th century, with its associated factories and machine-based production, created the need for funds to be available for investment. This led to the contribution of small amounts of capital that were channelled into large industrial and commercial activities which, in turn, over a period of time, grew remarkably in both size and number (Higson and Tayles, 1998; Porter et al, 2004). After the beginning of the industrial revolution, tremendous changes in the socio-economic environment were witnessed. In particular, there was the establishment and growth of huge industrial and trading companies, the separation of the ownership and management functions and the emergence of new interested parties, other than shareholders, in the operations of the new business activities. The more important result of the above developments was the separation of the ownership and management functions. The management and control of enterprises was increasingly given to a small group of qualified, professional, salaried managers who ran the corporations on a day-to-day basis and more often than not, owned no shares in the companies they managed. In this situation, the managers served as agents for the stockholders and fulfilled a stewardship function by managing the company's assets.

Since the custody and management of financial and other economic resources are in different hands from those of the owners, an examination or audit is needed from time to time to report on the work of the management in order to judge its success or failure. The fact that the management's report is an indicative of its performance raises the likelihood of a conflict of interest, in that there could be a propensity on the part of the management to hold back or misrepresent information that might cast a negative slant on its performance. As the management function is specialised and complex, the interested parties such as the shareholders, the wider stockholders, and society in general requires the services of another group of specialist professionals known as auditors to verify the accounts presented by the management of their performances and to form an opinion thereon (Rahman, 1996).

Because most the developments that business activities and auditing have witnessed in the beginning of the industrial revolution centred in the UK[1], the passages of the Companies Acts were one of the earliest steps in recognition of the need for audits. The UK's 1844 Act required the directors to keep accounts and that those accounts be audited by individuals other than the directors or their clerks. Where no other qualification were needed, every auditor was required to hold at least one share in the company that he audited but did not allow him to hold any office in the company or be in anyway interested in its concerns, except as a shareholder. (Vanasco, 1996)

An auditor had to be selected by shareholders of the companies and had to examine the company's records at reasonable intervals during the year. The auditor was required to report to the company's shareholders whether, in his opinion, the balance sheet gave a correct view of the company's position. In that period of time, the independence of the auditor from the company's management was not needed, nor the qualification of the auditor. In practice, a shareholder was usually appointed as auditor by his fellow members (Porter et al, 2004).

[1] Tracing the development of auditing and accounting in this section will be confined only to the UK and the US because most of the developments in the auditing and accounting practices during and after the industrial revolution were in these two countries. In addition, other countries' efforts have been influenced and based on the UK and the US efforts (see, Watts and Zimmerman, 1983; Vanasco, 1996; Patel and Psaros, 2000; Sucher and Bychkova 2001; Sucher and Maclullich, 2004; Porter et al, 2004)

The condition for shareholding, however, has not been retained in the UK as an auditor qualification as evidenced by the 1862 Companies Act, which permitted but did not. requires shareholding (Watts and Zimmerman, 1983). In the 1900 Companies Act, an auditor was still not required to be a qualified accountant but the need for auditors to be independent of management was recognised. The Act made a condition that neither a director nor an officer of the company could be selected as auditor (Porter et al, 2004). It was not until the Companies Act of 1948 that public companies were required to be audited by professional auditors. In 1979 auditors were forbidden from holding shares in their client companies by the ICAEW (Kilcommins, 1997).

Recently, companies Act 2006, in section 1212 has identified who can be qualified as an auditor. In particular, it states that:

> *"An individual or firm is eligible for appointment as a statutory auditor if the individual or firm: a) is a member of a recognised supervisory body, and b) is eligible for the appointment under the rules of that body* (Millichamp and Taylor, 2008: 23).

In order to protect the independence of auditors from their audit clients, the companies Act 2006 in section 1214 identified a number of people who are ineligible to act as auditors. These include officers and employees of the company, partners or employees of such persons or a partnership of with such a person is a partner, persons who have a connection with an associate of his/her of any description specified in regulations made by the secretary of state (Millichamp and Taylor, 2008)

Before the stock market crash of 1929, there was little regulation of the securities of markets in the United States. In order to retain faith in the capital markets that had been weakened by the crash and the Depression that followed it, the US Congress issued the Securities Act of 1933 and the Securities Exchange Act of 1934. These two Acts mandated that all publicly traded companies file financial statements that were certified by independent public accountants, in their first public stock offering and on an annual basis thereafter. The Securities and Exchange Commission (SEC) was established by the 1934 Act and was given the authority to issue standards for financial accounting and auditing (Berryman, 1978).

The SEC has tried to define independence in a series of rules and regulations which has played a major role in the development of auditor independence. Several pronouncements over the years have been issued by the SEC related to auditor independence. For example, in 1933, the SEC adopted the following resolution:

> *"The Commission will not recognize any such certified accountant or public accountant as independent if such accountant is not in fact independent. Unless the Commission otherwise directs, such accountant will not be considered independent with respect to any person in whom he has any interest, directly or indirectly, or with whom he is connected as an officer, agent, employee, promoter, underwriter, trustee, partner, director, or person performing similar functions"* (Berryman, 1978: 143).

The American Institute of Accountants (AIA)[2] did not recognise that a conflict of interest may arise when auditors verify financial reports of companies in which they have a substantial interest until 1934 when it stated that:

> *"No member or associate shall not certify the financial statements of any enterprise financed in whole or in part by the public distribution of securities if he is himself the actual or beneficial owner of a substantial financial interest in the enterprise or if he is committed to acquire such an interest"* (Berryman, 1978: 144).

In addition, as a part of its code of professional ethics conduct the AICPA in 1962, adopted a rule on independence that prohibited direct financial interest in an enterprise under audit by a member. Specifically, it states:

> *"A member or associate will be considered not independent, for example, with respect to any enterprise if he, or one of his partners, (a) during the period of his professional engagement or at the time of expressing his opinion, had, or was committed to acquire, any direct or material indirect financial interest in the enterprise, or (b) during the period of his professional engagement, at the time of expressing his opinion or during the period covered by the financial statements, was connected with the enterprise as a promoter, underwriter, voting trustee, director, officer or key employee"* (Berryman, 1978: 148).

This rule made the AICPA position closer to that of the SEC in prohibiting direct and material indirect financial interests in the audit client and for the first time prohibiting particular employment relationships, such as director or officer of the audit client during the period of the professional engagement. Furthermore, in November 1972, the AICPA Committee on Auditing Procedures issued Statement on Auditing Standards (SAS) No.1 which put more emphasis on auditor independence and states:

2- The AIA was established for the firs time in 1887 and later changed its name to be the American Institute of Certified Public Accountants (AICPA).

> *"To be independent the auditor must be intellectually honest; to be recognized as independent, he must be free from any obligation to or interest in the client, its management, or its owners"* (Vanasco, 1996: 7).

According to what has been mentioned above it can be seen that the concept of auditor independence has evolved over the years through several stages in the history of the development of the accounting and auditing profession which in turn has evolved as a result of the socio-economic changes in societies. The need for auditor independence became important in times where a separation of the management functions from the ownership were accrued, especially after the huge increase in the size of the enterprises after the beginning of the industrial revolution in the late eighteenth century. As a result of these developments in the socio-economic structure of societies, different interested parties in the financial statements of the entities other than the shareholder emerged such as potential investors, creditors, employees, government agencies and the society in general. Auditor independence became a social requirement worldwide. To fulfil this requirement, most countries have followed the UK and the USA in requiring that financial statements be audited by independent auditors.

3. 2: The nature and meaning of auditor independence.

According to Mautz and Sharaf (1961: 246):

> *"The significance of independence in the work of the independent auditor is so well established that little justification is needed to establish this concept as one of the cornerstones in any structure of auditing theory".*

The concept of auditor independence, however, is very difficult to be recognised in a precise way due to its dependence on the personal attributes of the auditor himself which cannot be directly observed or assessed (Wines, 2006). In order to understand the nature of independence in auditing, D'Silva (1992) maintained that the definitions of auditor independence are useful commencement points. Independence in general meaning according to the Oxford Dictionary (2001: 382) means:

> *"Not dependent on another person's livelihood or opinion, unwilling to be under an obligation to others; or not dependent on something else for its validity, efficiency, value".*

Auditor independence has received considerable attention from both the auditing profession and researchers, who have attempted to define what is meant by auditor independence. A dual connotation in the concept of independence has been recognised

by the auditing profession; independence in fact and independence in appearance (Mautz and Sharaf, 1961). Independence in fact, in the auditing profession has been defined in terms of honesty, objectivity and a mental attitude. For instance, the American Institute of Accountants (AIA) in its 1947 tentative statement of auditing standards specifically declares that:

> "*Independence is an attitude of mind, much deeper than the surface display of visible standards*". (Carey and Doherty, 1966: 39).

In addition, the second general standard of Generally Accepted Auditing Standards (GAAS) requires that:

> "*In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors*" (Vanasco, 1996: 6).

Similarly, auditor independence has been defined by the Institute of Chartered Accountants in England and Wales (ICAEW) in its 1997 Guide to Professional Ethics Statement (GPES) 1: Integrity, Objectivity and Independence as:

> "*Objectivity is essential for any professional person exercising professional judgement...objectivity is the state of mind which has regard to all considerations relevant to the task in hand but not other, it is sometimes described as 'independence of mind*" (Para. 2)

The International Ethics Standards Board (IESBA) of the International Federation of Accountants (IFAC, 2005) has defined the concept of independence in fact in the code of ethics for professional accountants section 290 Independence. Assurance engagements when it states:

> "*The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism*".

As can be seen from the previous definitions that the auditing profession viewed auditor independence as the auditors' state of mind, their ability to make objective and unbiased audit decisions. Independence according to these definitions refers to the mental attitude of auditors in terms of professional objectivity, that is unobservable and cannot be measured or assessed by financial statement users, due to its dependence on the personal characteristic of each auditor (Gorman and Ansong, 1998; Beattie et al, 1999; Wines, 2006). As such, many interested parties including academics, practitioners and

regulatory and professional bodies in developed countries such as the USA and the UK have attempted to define independence in a more precise way. As a result, another concept of auditor independence has been established "Independence in appearance". This notion of independence requires auditors to avoid any relationships with their clients which might lead financial statement users to doubt their independence.

The auditing profession has acknowledged this concept of auditor independence and emphasis has been put on it by most auditing professional bodies worldwide. For example the AICPA mentions the following:

> *"Public confidence would be impaired by evidence that independence was actually lacking and it might also be impaired by the existence of circumstances which reasonable people might believe likely to influence independence. To be independent, the auditor must be intellectually honest,; to be recognized as independent, he must be free from any obligation to or interest in the client, its management , or its owners."* (AICPA, 1991).

The Auditing Practicing Board (APB, 2004) Ethical Standard (1) defines independence as:

> *"Freedom from situations and relationships which make it probable that a reasonable and informed third party would conclude that objectivity rather is impaired or be impaired. Independence is related to and underpins objectivity. However, whereas objectivity is a personal behaviour characteristic concerning the auditor's state of mind, independence relates to the circumstances surrounding the audit, including the financial, employment, business and personal relationships between the auditors and their client"* (Para. 12)

The IFAC (2005) has defines auditor independence in appearance as:

> *"The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional scepticism had been compromised"*.

In addition to these efforts, many attempts were made by researchers to clarify and define the meaning of auditor independence. Some researchers, who were concentrating on independence in fact, defined independence in terms similar to those used by the professional bodies. For example, Bartlett (1993: 55) argues that independence in many early studies was not specifically defined and attempted to define auditor independence in terms of empirically observable behaviours as:

"An unbiased mental attitude in making decisions about audit work and financial reporting".

Other researchers, attempted to clarify and operationalise the meaning of independence beyond its psychological meaning, i. e. state of mind. For instance, Mautz and Sharaf (1961: 278) recognised three phases of independence in auditing. They underline the first phase as:

"That independence of approach and attitude which any professional man should have".

They argued that this kind of independence is a combination of self-reliance, freedom from client control, expert skill and ability and judgment based on training and experience that is not possessed by those who are not members of the profession. This type of auditor independence was also recognized by Carey and Doherty (1966: 38), who note that:

"Independence, in the sense of being self-reliant, not subordinate, is essential to the practice of all professions. No self-respecting professional man – physician, lawyer or certified public accountant – will subordinate his professional judgment to the views of his patient or client. He cannot evade his professional responsibility for the advice, opinions and recommendations which he offers. If his patients or clients do not like what he says, the practitioner may regret it; but no one would condone his changing his honest opinion in order to avoid giving offence or to secure his fees".

The second and third phases of auditor independence were seen by Mautz and Sharaf (1961: 278) as being peculiar to the auditing profession. They called the second phase "Practitioner independence" and view it as:

"That required by an auditor if he is to perform his function of review and verification in a satisfactory manner. Independence here consists of freedom from bias and prejudice, whether recognized or not".

To obtain this type of independence, the auditor must be aware of the various, as well as potential, influences on the auditor's task. Within this phase of independence, three dimensions were identified as follows:

1. *Programming independence: freedom from control or undue influence in the selection of audit techniques and procedures and in the extent of their application.*

2. *Investigative independence: freedom from control or undue influence in the selection of areas, activities, personal relationships, and managerial policies to be examined.*

3. *Reporting independence: freedom from control or undue influence in the statement of facts revealed by the examination or in the expression of recommendations or opinions as a result of the examination.* (Mautz and Sharaf, 1961: 247).

The third phase of independence was named "Professional Independence". This phase of auditor independence focuses on the public's recognition and acceptance of auditors as an independent professional group in performing their work. Mautz and Sharaf argued that the profession as a whole has to convince all interested parties of its purpose as an independent verifier of financial reports in order to insure the successful accomplishment of its purpose. Specifically, they stated:

> *"The profession as a whole must avoid any appearance of lacking independence. Unless the general public as well as the direct users of audit reports have confidence in the independence and integrity of the profession, the individual practitioner will not have maximum opportunities for service"* (Mautz and Sharaf, 1961: 252).

The second phase of auditor independence "Practitioner independence" is different from the third phase "Professional independence". The former, requires the auditor as an individual professional to judge situations which may compromise his independence, whereas, the latter recognised that the auditing profession as a whole has to convince the public of its independence.

Similarly, Carmichael and Swiernga (1968) identified three phases of independence; they called the first phase "professional independence". They maintained that this type of independence is important to the practice of any profession. For the auditor to attain this kind of independence, he must adopt an approach and attitude that makes him self-reliant and not subordinate to his client. The second phase was called "audit independence". This type of independence is peculiar to the auditor's function of examining and expressing opinions on financial statements. For the auditor to attain this type of independence he must not only refrain from intentionally favouring the client's interests in planning his examination, gathering evidence, and expressing his opinion, he must also avoid any unintentional feelings that might cause him to take such actions. The third phase, called "Perceived independence". Carmichel and Swiernga argued that this phase of independence has a two-fold nature; they maintained that this phase is

composed of two elements; "Individual perceived independence", i.e. the public's perceptions of independence of the auditor as an individual practitioner, and "Group perceived independence", i.e. the general public's perceptions of the independence of the auditing profession as a whole. They refer to the former as an evaluation of singular circumstances, while the latter as a matter of professional image

Some other researchers recognised that auditor independence exists within two broad dimensions, i. e. fact and appearance. For instance, Higgins (1962: 699) suggests two separable phases of independence as follows:

> *"There are actually two kinds of independence which a CPA must have independence in fact and independence in appearance. The former refers to a CPA's objectivity, to the quality of not being influenced by regard to personal advantage. The latter means, his freedom from potential conflicts of interest which might tend to shake public confidence in his independence in fact".*

Arens et al (2003: 83) defines independence in auditing as:

> *"Taking an unbiased viewpoint in performing audit tests, evaluating the results, and issuing the audit report".*

In addition, they identified the two phases of independence when they emphasised the need for auditors to be both independent in fact and in appearance. They stated:

> *"Not only is it essential for auditors to maintain an independent attitude in fulfilling their responsibilities but it is also important that the users of financial statements have confidence in that independence. These two objectives are often identified as independence in fact and independence in appearance. Independence in fact exists when the auditor is actually able to maintain an unbiased attitude throughout the audit, whereas independence in appearance is the result of others' interpretations of this independence"* (Arens et al, 2003: 83).

Porter et al (2004, p. 47) highlight the two types of independence "independence in fact" and "independence in appearance" as follows:

> *"Independence in fact: that is, the auditor maintains an unbiased, objective attitude of mind which enables him or her to evaluate a set of financial statements (and supporting evidence) in an impartial manner, and to form and express an opinion in the audit report uninfluenced by personal bias.*
>
> *Independence in appearance: that is, avoiding situations which might cause others to conclude that auditor might not be maintaining an unbiased objective attitude of mind, for example, by having mutual or conflicting interests with the audit client or its management".*

Auditor independence was viewed by other researchers such as Goldman and Barlev (1974), Aranya and Sarell (1975), Nichols and Price (1976) and Flint (1988) as a result of interactions between different factors and parties in a particular society where an auditor performs his work. For instance, Goldman and Barlev (1974) and, Nichols and Price (1976), defined auditor independence as the outcome of reactions to conflicts of interest and the balance of power between the concerned parties, whereby independence is a result of a cost-benefit calculation based on inputs into these decisions. Similarly, Flint (1988) argued that attainment of independence is the result of interactions between various parties and factors within the society where the auditor performs his task. Flint (1988: 59) views auditor independence as:

> *"The product of a combination of personal qualities, organizational arrangements and environmental circumstances or constraints. It is how auditors act and the conditions under which they act which determine whether it is possible for them to be independent, whether they are in fact independent, and whether they are perceived to be independent. It is on these factors that belief in the independence of audit will depend".*

De Angelo (1981 a: 116) in an attempt to define independence said:

> *"The level of auditor independence is defined as the conditional probability that, a given breach has been discovered, the auditor will report the breach".*

Watts and Zimmerman (1983: 615) put forward a similar definition when they said:

> *"The probability that the auditor will report a discovered breach is effectively the auditing profession's definition of independence".*

To sum up, the review of the literature in this section revealed that the meaning of auditor independence was first defined by the auditing professional bodies and researchers as being a "state of mind", which is an intangible quality of the auditors' mental attitude that cannot be easily observed or assessed due to its dependence on the personal characteristic of each auditor. Therefore, attempts were made to operationalise the meaning of independence. As a result, two kinds of auditor independence have been identified, namely, "Independence in fact" (actual independence) and "Independence in appearance" (perceived independence). The former refers to the mental attitude of the auditor in terms of professional objectivity, while the latter refers to the public's or others' perceptions of the auditor independence. Since the former element of auditor

independence cannot be easily observed or assessed, the latter element of auditor independence has been seen to be more important in protecting the status of the profession in society.

3. 3: The importance of auditor independence.

Independence of the auditor is a crucial attribute of a credible audit when reporting on the reliability of the companies' financial reports. Skills and expertise to identify errors and fraud are expected to be possessed by most audit firms but the reporting of those errors and or insisting on changes to the accounts is a function of the auditor independence (Firth, 2002). Independence requires a freedom from bias, personal interest, or susceptibility to undue influence or pressure (Sutton, 1997). Independence is critically important to the auditor as it is considered as being one of the basic requirements underlying the audit work (Firth 1980). If auditors are not truly independent, their opinions will add no value to their clients' financial statements. For that reason, auditor independence is considered the hallmark of the auditing professions.

This belief in the importance of auditor independence has its logical foundations in the assumption that management of companies may not always presents full and fair financial information about their companies to the financial statements' users. Therefore, there is a need for an independent, external system of examination. This external system of audit which produces an audit opinion, adds credibility to the financial statements of enterprises in order that it could be relied on and used for economic decisions process (Sucher and Bychkova, 2001). It has been suggested that the need for an independent external audit to verify the financial statements of corporations is justified for four reasons; conflict of interests, consequences, complexity and remoteness (Committee on Basic Auditing Concepts, AAA, 1973).

Conflict of interest: A conflict of interest might be created between the management of corporations as preparers and providers of financial statements and users of financial statements (mainly shareholders) who need to know that the corporation's financial performance, position and cash flow as accurate as possible. Users of financial statements perceive however, that the management may not always present full and fair financial information and bias could be present in its reports. Therefore, the opinion of

an independent external party plays a crucial role in helping to assure the fair representation of the company's financial dealings.

Consequences: Users of a company's financial statements could suffer grave financial loss as a result of basing their decisions on unreliable financial information. Thus, before taking any decision, they need to be assured that the financial statements are dependable and present full and fair financial information.

Remoteness: As a result of the separation of the ownership and the management functions in modern corporations, shareholders and other interested users of a company's financial statements do not have the possibility to directly verify the reliability of the financial statements. This can be caused by legal or institutional barriers, or by time, distance or cost constraints that prevent users from performing their own audit investigation. Accordingly, the need for an independent external party to consider the reliability of the information on behalf of those users has been created.

Complexity: As a result of the increased financial connections that modern companies have witnessed in recent years, economic transactions, and the accounting systems which capture and process them, have become very complex. This complexity of financial information and reporting processes may create the possibility of unplanned errors in published financial information. Additionally, with this increasing complexity, the average users of external financial information are not knowledgeable enough to evaluate the quality of the information. Therefore, the need for an independent external auditor, who has the required competence and expertise to provide an unbiased opinion on the company's financial statements, is increasingly justified.

Regulatory and Professional bodies such as AICPA, SEC, ICAEW, IFAC and many others have recognised the importance of auditor independence in its two dimensions, i. e. independence in fact and independence in appearance, and codified it in their regulations and professional codes of ethics. For instance, the Council of the AICPA states:

> *"Independence, both historically and philosophically, is the foundation of the public accounting profession and upon its maintenance depends upon the profession's strength and its stature"* (Berryman, 1978: 141).

In addition, the second general standard of Generally Accepted Auditing Standards (GAAS) requires that:

> "*In all matters relating to the assignment, independence in mental attitude is to be maintained by the auditor or auditors* "(Vanasco, 1996: 6).

As well, the SEC for many years has considered independence as one of the most important characteristics that auditors should have when performing their duties. Recently, the rulings of the SEC (2003) and the Sarbanes-Oxley Act 2002 have emphasised the importance of auditor independence. For example, The SEC's 2003 rulings and the Sarbanes-Oxley Act 2002 planned to support the auditor independence from management in the following ways:

- Provide a clear definition of types of Non-Audit Services (NAS) that would be considered to harm independence.
- Requiring audit committees to pre-approve each engagement of the auditor to perform audit or NAS for his client.
- Requiring the rotation of audit partners on the engagement team in order to ensure a periodic fresh look at the accounting and auditing issues related to the issuer's financial statements.
- Requiring an accounting firm not to audit an issuer's financial statements if certain members of management of the issuer have been members of the accounting firm's audit engagement team until a 'cooling off period' has passed, to ensure that personal relationships and the knowledge of the new member of the company's management regarding the audit plan do not damage the audit process.
- Requiring issuers of financial statements to disclose information relating to audit and NAS provided by, and fees paid by the issuer to, the auditor of the issuer's financial statements. (Sections 201, 202, 203, 204, 206 of the Sarbanes-Oxley Act 2002).

In the UK, the (APB, 2004) Ethical Standards emphasised the importance of auditor independence and identified six different types of potential threat that might face auditors when performing their tasks. The APB warned auditors that these threats might adversely affect their objectivity and independence and recommended several

safeguards that auditors should take to protect their independence. The main types of threat that were identified by the APB are:

Self-interest threat: this threat arises from auditors favouring or being perceived to favour self-interest over their interests in performing an unbiased audit. Such self-interest might develop from auditors' financial, emotional, or other personal interests. For instance, this threat could occur if auditors have direct or indirect financial investment in the audit client, business relationships with the audit client, and family relationships with members of the management of the audit client.

Self-review threat: this threat relates to the difficulty of maintaining objectivity in performing self-review procedures. For example, where the audit firm has been involved in maintaining the accounting records, or undertaking valuations that are incorporated in the financial statements, or when any outcome or judgement of a previous audit or non audit services (NAS) assignment performed by the auditors or their firm needs to be challenged or re-evaluated to reach a conclusion on the current audit. In such situations, auditors may be or may perceive to be reluctant to take an objective stance of relevant aspects of those financial statements.

Management threat: this threat arises when an audit firm performs duties that should be undertaken by the audit client's management. For example, if the audit firm has been involved in designing and implementation of financial information systems for the audit client, the audit firm's interests may become closely aligned with the management's and this could impair auditors' objectivity and independence (or may be perceived to be impaired).

Advocacy threat: this threat arises when auditors become advocates for, or against, the client's position in any adversarial proceedings or situations. Such behaviour can be a threat to serving as unbiased auditors of the financial statements and may include for example, auditors dealing in or promoting shares or securities in the audited company, acting on behalf of the audit client in litigation, or when the client litigates against the auditor. These acts put auditors in a position closely aligned to that of the client's management which might create both actual and perceived threats to auditors' objectivity and independence.

Familiarity (or trust) threat: this threat arises from auditors compromising objectivity because of being influenced by a close relationship with the audit client. For example, if auditors have a particular or long-standing personal or professional relationship with a client. In such situations, the auditors may become over-influenced by the client's personality and qualities, and consequently become too sympathetic to the client's interest.

Intimidation threat: this threat arises from auditors being deterred from performing objectively because they are being, or believing that they are being, overtly or covertly intimidated by the audit client or by other interested parties. Such threats could accrue if an audit firm is threatened with replacement over a disagreement with the client's management about an application of an accounting principle. (APB 2004, Standard 1, Para. 28).

Based on the above, it can be seen that the independence of auditors was considered to be one of the most important characteristics that auditor should have when conducting their duties. This unique characteristic is critically needed to provide confidence in the issued financial statements of enterprises in particular and to the role which the auditing profession is performing in the economic activities of society in general.

3. 4: Summary.

The concept of auditor independence has evolved over the years through several stages in the history of the accounting and auditing profession. Independence became an important characteristic of auditors during and after the industrial revolution when separation of the management functions from the ownership accrued following the huge increase in size and number of the enterprises. As a result most countries worldwide have required that financial statements be audited by independent auditors. Two kinds of auditor independence have been identified in the auditing literature; independence in fact (actual independence) and independence in appearance (perceived independence). The former refers to the mental attitude of the auditor in terms of professional objectivity, while the latter refers to the public's or others' perceptions of auditor independence. Finally, auditor independence has been perceived to be one of the most important characteristics that auditors should possess when performing their duties.

Chapter four:

Academic studies on auditor independence

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4. 0: Introduction.

Since the main objective of this study is to provide additional empirical evidence relating to perceptions of auditor independence, an extensive review of the existing accounting and auditing literature relevant to the purpose of this study is provided in this chapter. To achieve this objective, the chapter is divided into three sections. The first section reviews of the relevant literature (theoretical arguments and empirical studies) related to the perceived effect of the nine selected factors on auditor independence. The second section analyses the identified gap in previous literature. Finally, a brief summary of the chapter is outlined in the third section.

4. 1: Perceptions of auditor independence.

A comprehensive review of the accounting and auditing literature concerned with auditor independence revealed that a substantial amount of academic research has been undertaken which examines, either analytically or empirically, the impact of several factors on perceptions of auditor independence. Nine factors, suggested to have the most influence on perceptions of auditor independence, were selected for the purposes of this study. These included: audit firm size, audit firm tenure, competition, auditors' economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of non-audit services (NAS). The likely impact of the above factors on perception of auditor independence in both the theoretical arguments and the empirical research are presented as follows:

4. 1. 1: Size of the Audit Firm.

The large size of the audit firm was considered to have a positive impact on the perceptions of auditor independence (Abu Bakar et al, 2005). It has been suggested that large audit firms are usually perceived as more capable of maintaining an adequate degree of independence than their small counterparts. For instance, Mautz and Sharaf (1961) argued that large audit firm would not be as economically dependent as a small

firm on any one client due to the associated fees that usually constitute a smaller proportion of the audit firm's total revenues. In the same vein, Shockley (1982) contended that certain characteristics inherent in small audit practices may increase the danger of impairment such as the nature of the typical small firm client or the tendency towards a more personal mode of service and close relationship with the client. A similar idea is shared by Gul (1991) who believes that smaller audit firms were more likely to lose their independence due to their tendency towards a personalised mode of service and close relationships with their clients. Furthermore, Lennox (2005) argues that large audit firms' opinions are more accurate compared with those of small audit firms due to the high quality audits that large audit firms provide compared with small audit firms.

Empirically, audit firm size was one of the most researched factors that received attention in many countries. For example, Gul (1989) conducted a study in New Zealand to investigate the effects of five factors including audit firm size on bankers' perceptions of auditor independence. Audit firm size was described as large or small. Large audit firms refers to those which provide auditing services to registered companies on the New Zealand stock exchange, while small audit firms refers to those which do not have the required resources to serve the needs of large corporations. The research questionnaire was sent to 64 bank loan officers and a 76 per cent response rate was obtained. Subjects were required to make a subjective estimate of the relative strengths of eight different scenarios using a 7 point scale. The effects of each of the factors was tested using a combination of a between and within-subjects[1] multi factor ANOVA design. The results indicated that the effects of the audit firm size factor was found to influence perceptions of bank loan officers regarding auditor independence, with bankers perceiving large audit firms to be more independent than small audit firms.

Lindsay (1990) investigated how the size of the audit firm as well as three other factors was perceived by Canadian bank loan officers to affect the ability of an auditor to resist management pressure. The size of the audit firm was described as being one of the largest national audit firms in Canada or as being a local one-office audit firm with a

[1] - A between-subjects methodology requires subjects to respond to only one level of manipulated variable, whereas a within-subject methodology require subjects to response to more than one level of the manipulated variable (Pany and Reckers, 1987).

staff of fifty professionals. The experiment was a full-factorial, repeated measure analysis of variance design with four independent variables, each of which had two treatment levels. The respondents were required to record the likelihood that the dispute depicted would be resolved in favour of the alternative desired by client management rather than the auditor. Out of 80 research questionnaires, only 55 usable responses were received that made a response rate of 68.75%. The results indicated that bank loan officers perceived small audit firms as being less able to resist management pressures than large firms.

In another study, Gul (1991) used a multi-factor ANOVA experimental design to examine the effects of four factors including audit firm size on bankers' perceptions of the auditors' ability to resist management pressure in an audit conflict situation in New Zealand. Audit firm size was described as large or small. Large audit firms refer to one of the big eight audit firms and small firms refer to local audit firms without national affiliations and as a rule with fewer resources to service the needs of large corporations. Questionnaires were sent to 72 Bank lending officers, from whom 49 usable responses were received which made a response rate of 67%. Subjects were asked to make a subjective judgment on a 7 point scale of the likelihood that management would obtain its preferred resolution to a dispute between the auditor and the client concerning the materiality of certain unrecorded liabilities discovered by the auditor, which consisted primarily of expenses incurred in the previous year which were neither paid nor recorded until the following year. The results of this study indicated that small audit firms were perceived to be more likely to resolve the conflict in favour of the management's client than large audit firms.

Gwilliam and Kilcommins (1998) examined the effects of audit firm size and audit committees on perceptions of auditor independence held by corporate lenders, investment managers and financial analysts in Ireland. Audit firm size was described as Big Six audit firms or Non-Big Six audit firms. Big-Six audit firms were Arthur Andersen, Coopers and Lybrand, Craig Gardner/ Price Waterhouse, Deloitte and Touche, Ernst and Young; and Stokes Kennedy Crowley/ KPMG, while Non-Big Six audit firms included all other audit firms. The study methodology combined the use of mail questionnaire and semi-structured interviews. Participants in the mailed

questionnaire were presented with a number of statements and were asked to indicate on a five point scale their agreement with each statement. Out of the 196 mailed questionnaires, 148 usable responses were received that made a response rate of 75.5%. In addition, 30 semi-structured interviews were conducted with sub-sample of those to whom the questionnaire was sent. The results showed that perceptions of auditor independence were enhanced if the auditor was a member of one of the Big Six audit firms.

In order to explore the potential of regulatory reforms in the United Kingdom to strengthen the independence framework, Beattie et al (1999) measured the UK interested parties' (financial directors, audit partners and financial journalists) perceptions of the influence on auditor independence of a large set of economic and regulatory factors. 45 audit environmental factors were used as proxy measures for the generic factors including audit firm size. Audit firm size was classified as: Small local firm, regional firm, a non-big six international or national firm and a big six firm. 415 usable questionnaires were received out of 657 research instruments mailed which made a response rate of 69%. Respondents were required to indicate on a five point scale the extent to which each of the factors listed has an impact on the independence of auditors. Results indicated that the participants of this study considered auditor independence to be undermined in the cases of small local firms and regional firms.

Regarding auditor independence in the Libyan context, Almalhuf (2003) investigated the effect of four factors including audit firm size on perceptions of auditor independence. Audit firm size was divided into two categories; small and large. Large audit firms were defined as those which composed of more than one partner whereas small audit firms were defined as those which composed of one partner or as a sole practitioner. The Chi-square statistical technique was used to analyse collected data related to the effect of the four factors on auditor independence. The research questionnaire was sent to 80 external auditors and 65 financial statement users (bank loan officers, Taxation Board auditors and Stat auditors). The participants were asked to indicate their agreement or disagreement with regard to the effect of each factor on auditor independence by selecting either "yes" or "no". 97 usable questionnaires were collected which made a

response rate of 67%. The results revealed that auditor independence was perceived not to be effected by the size of the audit firm.

Tahinakis and Nicolaou (2004) assessed the perceived effects of audit firm size among three other factors on the risk that independence of auditors may be become impaired. Four criteria were used to determine the size of the audit firm. These include: a) the total assets are more than € 381.511, b) net value for provision of services is more than € 763.023, c) the mean of certified auditors of the specific audit firm is more than 50 auditors and d) the conduct of audit controls in more than one firms admitted to the stock market. Factorial analysis of variance was used to analyse judgments obtained from three subject groups in Greece: certified auditors, bank executives in loan decisions and financial analysts. 144 usable questionnaires were received out of 601 mailed, obtaining a response rate of 24%. The results indicated that participants of this study considered that small audit firms are more likely to lose independence than larger audit firms.

In Malaysia, Abu Bakar et al (2005) among six factors studied the effect of audit firm size on perceptions of auditor independence as held by bank loan officers. Out of 240 questionnaires mailed to bank loan officers, data were gathered only from 86 usable questionnaires, producing a response rate of 35.8%. Results of this study indicated that bank loan officers perceived that the larger the size of an audit firm, the more likely that auditor independence would be enhanced. Similar result was reported by Alleyne et al (2006 a) in Barbados, when they investigated how perceptions of several groups (auditors, financial directors, credit managers, investment analysts, fund managers, shareholders, and government departments) would be influenced by a set of 39 audit-related issues categorised under a number of generic factors including audit firm size. Audit firm size was classified as: being a sole practitioner, being a non-big four audit international firm and being a big four international firm. Respondents were required to indicate on a five point scale the extent to which they think these issues might affect auditor independence. Results indicated that small firm size and being a sole practitioner were found to negatively affect perceptions of auditor independence; in contrast, large audit firm was found to be positively affecting perceptions of auditor independence.

Awadallah (2006) examined the effects of four factors including the size of an audit firm on Egyptian auditor's ability to withstand client management pressure in a dispute. The research instrument (questionnaire) described a public company listed on the Cairo and Alexandria stock exchange where client management and the auditor disagree on the materiality of certain unrecorded liabilities discovered by the auditor. The experimental task that was used was a repeated-measure design consisting of all sixteen possible combinations of the four factors, each having two treatment levels. Audit firm size was divided as large or small. Large audit firms refer to those which provide auditing services to companies in the stock exchange, while small audit firm refer to those which do not provide such services to listed stock exchange companies. Participants were asked to indicate for each scenario on a seven point Likert scale how likely it was, in their opinion, that uncovered liabilities would be ignored for purposes of the auditor's report. 106 usable questionnaires were received from 150 mailed questionnaires which made a response rate of 70.66%. The overall ANOVA analysis results showed that the respondents perceived small audit firms were more likely to lose their independence than were large audit firms.

Based on the above theoretical arguments and empirical results, it can be seen that size of the audit firm has an impact on perceptions of auditor independence. Large audit firms were perceived to be more independent than smaller audit firms due to several reasons such as, large audit firms are not being economically dependent on one or few clients for their income, not having a personalised mode of client service, not having close relationships with their clients, and having numerous experienced and qualified staff that allows them to provide high audit quality. However, as Goldman and Barlev (1974) mentioned it should not be concluded that large audit firms are immune to pressure by their clients that might impair their independence, especially when there is a high level of competition among large audit firms for clients. In addition, most of the previous studies were conducted in the developed countries but very few studies carried out in developing countries such as Libya, where different political, economic and social systems exist which might shape the perceived impact of size of the audit firm on auditor independence.

4. 1. 2: Audit firm tenure.

An audit firm tenure, which is the length of the relationship between auditors and their clients, has been considered to have an impact on auditor independence (Abu Bakar et al, 2005). Relationships between auditors and their clients can create closeness with management that may adversely affect auditor independence and reduce the reliability and quality of the audit. It is alleged that close relationships have led to the external auditor's inability to examine transactions and contributed to recent remarkable audit failures at several high-profile companies such as Enron and World Com (Gates et al, 2007)

It has been argued that long association between audit firms and their clients may lead to such close identification of the audit firm with the interests of its clients' management that truly independent decisions by the audit firm becomes difficult (Abu Bakar et al, 2005; Gates et al, 2007). Many years ago Mautz and Sharaf (1961) state that in many cases the greatest threat to auditor independence is a slow, gradual, almost casual erosion of "honest disinterestedness". Similarly, Shockley (1982) shared this concern when he pointed out that an audit firm may become less innovative in its audit techniques and may use less strenuous audit procedures due to the acquired confidence in the client. Additionally, he argued that an audit firm may become so closely associated with management that it subconsciously or consciously loses the objectivity necessary for independence. In the same vein, Flint (1988) contends that a lengthy tenure in office may cause the auditor to develop "over-cosy relationships" as well as strong loyalty or emotional relationships with their clients, which could reach a stage where auditor independence is threatened. Furthermore, Petty and Cuganesan (1996) argue that in extreme cases, a long relationship between auditors and their clients could result in collusion between the two parties which would destroy the audit process.

The Guide to Professional Ethics Statement (GPES 1.201, Para 2.5) of the ICAEW (1997) recognised that long association between auditors and their clients may be perceived as a threat to auditor independence and recommended that auditors should avoid situations that may lead them to become over-influenced or to be too trusting of the client's directors and key personnel which could consequently lead to audit staff being too sympathetic to the client interest. Similar concerns were shared by the IFAC

(2005). In order to maintain public confidence in the audit function and to protect auditor independence, regulations that disallow auditors from developing personal relationships with their clients that may give rise to a potential conflict of interest were adopted by some regulatory and professional bodies in developed countries such as the UK and the US (Abdul Nasser et al, 2006). For instance, the Metcalf Committee (1976) in the US considered that long association has serious dangers which are enough to recommend the mandatory rotation of audit firms after a given period of time. Proponents for audit firm rotation suggested that it may reduce the economic relationship between the auditor and the client and lessen certain judgment bias. The auditor will have less incentive to seek future economic gain from a specific client and will, therefore, be less likely to bias reports in favour of management as the auditors would know that their tenure and related revenues are for a limited term (Gates et al, 2007).

On the other hand, short relationships between auditors and their clients were considered to have a negative impact on auditor independence. For example, Gul, et al (2007) argued that auditors with short tenure are likely to lack adequate knowledge of their clients' accounting and control systems which might give their clients' management an opportunity to manage its reported earning. Furthermore, they went on to say that auditors with long tenure are likely to be more concerned of their reputation protection than auditors with short tenure who are likely to place more emphasis on profit (quasi rents) than reputation protection. In line with this argument, the Cohen Commission (1978) in the US asserted that rotation would result in increased audit fees as the benefits to be gained from subsequent lower cost after the initial years of any audit would not be fully realised. Opponents of rotation believe that the costs of audit firm rotation outweigh the benefits and the experience and knowledge that is gained over time in improving quality of audit work would be wasted with the appointment of a new auditor (Arel, et al 2005). Similar concern about audit firm rotation was expressed by the European Federation of Accountants (2002). The FEE believed that rotation leads to a loss of cumulative audit knowledge and increases the risk of audit failure in the first years after rotation (Soltani, 2007).

Nevertheless, the Auditing Practices Board (APB, 2004) stated that UK audit engagement partners should rotate every five years and key audit partners should rotate every seven years (APB Ethical Standard, No. 3, Para. 12). Similar rotation was required in the US by the Sarbanes-Oxley Act (2002) that audit engagement partners involved in the SEC registered companies were prohibited from providing audit services for the issuer for more than five consecutive years, depending on the partner's involvement in the audit. In Italy, the audit engagement could last three years and it could be renewed twice (Stevenson, 2002). The issue of audit firm tenure and interval rotation of audit firms or audit partners in Libya however, were not explicitly or implicitly addressed in any of the relevant official documents such as the 1953 Libyan Commercial Code and its amendments and the 1973 law No 116 that regulates accounting and auditing practices.

The impact of audit firm tenure on perceptions of auditor independence has attracted considerable attention and has been investigated in many previous studies. For instance, Schleifer and Shockley (1990) investigated auditors (Big Eight audit partners and Non-Big Eight auditors) and financial statement users (Bank loan officers and certified financial analysts) perceptions of fourteen policies were discussed in the Cohen Commission report (1978) designed to enhance auditor independence. Two of the fourteen polices were related to the rotation of auditors. The seventy two participants in the study from the four groups were asked to indicate whether they agree or disagree that such polices would enhance auditor independence. Results from this study showed that the majority of the respondents agreed that such polices would enhance auditor independence.

Mousa (1992) studied the impact of some factors on auditor independence in the Libyan context. Among these factors was audit firm tenure. The research instrument (questionnaire) was sent to external auditors and financial statement users (Taxation Board auditors and State auditors). The results of this study revealed that 36% of the participants from the external auditors group acknowledged that they continued to audit the financial statements of their audit clients for more than three years. According to this result, the researcher concluded that auditor independence could be seriously undermined in such situation.

Hussey and Lan (2001) investigated the opinions of UK finance director about three key questions posed by the Board for Chartered Accountants in Business (1990). One of the questions was about compulsory rotation of audit firms. A questionnaire composed of six statements on various aspects of audit was developed and mailed to 3000 UK finance directors. Respondents were asked to provide their measure of agreement with each of the statements. A total of 776 usable questionnaires were received which made a response rate of 25.9%. The results showed that the perception of auditor independence would be enhanced by prescribing the rotation of auditors.

In Saudi Arabia, Hudaib (2003) used a qualitative research (unstructured interviews) methodology to explore and analyse how various factors at the three levels: macro, micro (including audit firm tenure), and personal shaped the perceptions of auditors and financial statement users regarding auditor independence. 43 interviews were conducted with selected members of various interested groups (auditors, shareholders, credit managers, investment analysts, fund managers, and government bodies). The results of this study showed that lengthy tenure was perceived by most of the groups to impair auditor independence except the auditors group.

In Greece Tahinakis and Nicolaou (2004)[1] examined the effects of four factors including audit firm on perceptions of auditor independence. Audit tenure was set in two levels less than three years or more than three years. The results showed that subject groups believed that audit tenure for more than three years was perceived to have a negative impact on auditor independence. Abu Bakar et al (2005)[2] investigated the effects of six factors including audit firm tenure on perceptions of bank loan officers regarding auditor independence. Audit firm tenure was perceived by 90.7 per cent of the participants of this study to negatively effect auditor independence. Respondents believed that the longer the duration an auditor firm serves an audit client, the more likelihood that auditor independence will be impaired. In addition, auditor firm tenure was found to be the second most important factor that affects auditor independence.

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[1] - For more details of this study refer to page 58.
[2] - For more details of this study refer to page 58.

In Barbados, Alleyne et al (2006 a)[1] studied how perceptions of subject groups would be influenced by a set of 39 audit-related issues categorised under a number of generic factors including audit firm tenure. Results of this study indicated that audit firm tenure was perceived to undermine auditor independence.

In contrast, some empirical research indicated that auditor independence was found not to be significantly affected by lengthy audit firm tenure. For example, St. Pier and Anderson (1984) investigated the activities, decisions and circumstances that have led to auditor's conflicts with clients and third parties, resulting in lawsuits against the auditors. 129 US legal cases tried between 1960 and 1973 were selected that were filed against auditors and categorised 334 alleged errors brought by the plaintiffs. Each case was separately analysed to indicate the factors that contributed to the filing sequences including the situational characteristics surrounding each case. The results showed that 30 court cases of the 129 cases (23%) analysed involved an auditor with less than three years of experience with the client. Accordingly, the researchers concluded that this result adds credibility to the contention that risks increase with new clients and should be noted in discussions concerning mandatory rotation of auditors.

Geiger and Raghunandan (2002) used a logistic regression model to examine the association between auditor tenure and audit reporting failures. The study analysed financial statements, audit reports, and auditor tenure data for 177 stressed, bankrupt companies in the US in the 1996-1998 time period. The results of this study indicated that there was a positive association between length of auditor tenure and the likelihood of a bankrupt company having received a prior going-concern modified audit report. Moreover, the researchers concluded that audit reporting failures were more likely to occur in the initial years of an audit engagement. In the same vein, Almalhuf (2003)[2] studied, among several issues, the effect of audit firm tenure on auditor independence. Participants of this study were requested to express their opinions about whether auditor independence would be affected if an audit firm continued to audit a particular audit client for a prolonged period of time. The results indicated that auditor independence was perceived not to be effected.

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[1] - For more details of this study refer to page 58.
[2] - For more details of this study refer to page 57.

Based upon yearly regression between 1990 and 2000, Ghosh and Moon (2005) investigated whether capital market participants (investors, independent rating agencies, and financial analysts) perceived longer tenure as affecting audit quality. The results of this study showed that audited financial statements, and in particular reported earnings, were perceived as more reliable for firms with longer auditor tenure. Overall, the study suggested that imposing mandatory limits on the duration of the auditor-client relationship might impose unintended costs on capital market participants.

The above literature showed conflicting evidence as to the effects of audit firm tenure on perceived auditor independence. Some theoretical arguments and empirical results believed that long association between audit firms and their clients may lead to the development of an "over-cosy relationship" that could adversely affect auditor independence and reduce the reliability and quality of the audit. Therefore, mandatory audit firm rotation was proposed as a remedy to this issue. Others believed that the costs of audit firm rotation outweigh the benefits and the experience and knowledge that is gained over time in improving quality work would be wasted with the appointment of a new auditor. In addition, problems with audit reporting and independence may be more likely to arise in the earlier years of the auditor-client relationship. Although audit firm rotation may be a suitable solution to sustain public confidence in the audit process in developed countries with adequate qualified auditors, such policy may be not justified for countries such as Libya where there is a relatively small auditing community capable to provide a high quality audit.

4. 1. 3: Competition among audit firms.

Competition among audit firms has been recognised as having an adverse impact on auditor independence by many interested parties. For instance, Shockley (1982) argued that auditor independence could be impaired if levels of competition in the audit market increases. Specifically, he states that:

> *"As competition increases, it becomes more likely that the CPA will be replaced by an auditor more compliant with the client's wishes. Knowing this, the CPA's power over the client decreases"*, (Shockley, 1982: 136).

It has been noticed that the audit environment has become more competitive than in earlier decades (Awadallah, 2006). In recent years, competition has increased due to the

increase in the supply of services that audit firms could provide to their clients other than the audit serves and to the removal of rules that prevented audit firms from advertising their services and directly soliciting clients for business (Beattie et al, 1999). These changes have increased the consequences of losing clients and the incentives for maintaining good auditor-client relationships (Awadallah, 2006). In order to obtain clients or to maintain them, auditors may respond to the client's management pressure and accept audit engagement at lower fees than appropriate for the work. This kind of practice that auditors may use to indicate their willingness to accommodate the client's wishes is known in the accounting literature as "low-balling". Low-balling has been defined by De Angelo (1981a:113) as:

> "*Setting audit fees below total current costs on initial audit engagements.*

De Angelo (1981 a) however, argues that low-balling itself does not constitute a threat to auditor independence because initial fee reductions are sunk costs and are irrelevant for future actions or decision making. Additionally, she mentioned that low-balling is a competitive response to the expectation of future income. Contrary to this viewpoint Simon and Francis (1988) state that sunk costs do significantly affect subsequent decision making. They contended that since a considerable investment was made to obtain the new client, a motivation not to lose the client will be developed even in the presence of serious auditor-client disagreements. They add that this could lead to an additional auditor independence problem during the period of investment recovery. This idea was supported by Magee and Tseng (1990) when warned that low-balling as a response to the high level of competition in the audit market may motivate auditors to reduce the quality of their professional opinions in order to preserve their clients or to find new ones. Low-balling has been referred to by regulatory bodies as impairing auditor independence and reduces audit quality (Vanasco, 1996).

Another aspect of the competitive environment which could be practiced by either audit firms or their audit clients is what has been known as "opinion shopping". For instance, many auditors could be contacted by client's management for their opinions on a specific issues relating to the client's financial statements. Reza (1991) suggests that opinion shopping could substantially affect auditor independence, the credibility, role,

and status of the accounting profession, and the reliability of financial statements. Opinion shopping has been defined by the SEC (1988) as:

> *"The practice of seeking an auditor willing to support a proposed accounting treatment designed to help a company to achieve its reporting objectives even though doing so might frustrate reliable reporting"* (Vanasco, 1996: 36).

The effect of competition on perceptions of auditor independence has received considerable attention and was examined in several previous studies. For example, Lindsay (1990)[1] investigated how the extent of competition among audit firms as well as three other factors was perceived by Canadian bank loan officers to affect the ability of an auditor to resist management pressure. Competition was set at two levels: aggressive and not aggressive. Aggressive level referred to when a number of large auditing firms were aggressively pursuing practice development (expansion) programmes. The results showed that bank loan officers perceived the nature of the competitive environment among audit firms as a factor that may hamper an audit firm in its attempt to take a strong independent stance. In New Zealand, Gul (1991)[2] studied how bank loan officers perceived auditor's ability to resist management pressure in an audit conflict situation due to the effect of four factors including competition. Competition was set at two levels; high and low. High level of competition referred to when the immediate audit market is characterised by a number of large audit firms that are aggressively pursuing expansion programmes in terms of increasing client number, whereas, low competition referred to when there are few or no competing firms in the audit market. The results of this study showed that competitive audit firms were perceived to be more likely to resolve the conflict in favour of the client than less competitive audit firms.

Beattie et al. (1999)[3] examined the effects of a large set of economic and regulatory factors including competition on perceptions of interested parties in the UK regarding auditor independence. Competition was described as; high level of competition within the external audit market. Three audit environmental factors (audit situations) were used as a proxy measure of competition; audit fee discounting and low-balling, competition among audit firms and budget pressures imposed by audit firm on staff. The results

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[1] - For more details of this study refer to page 55.
[2] - For more details of this study refer to page 56.
[3] - For more details of this study refer to page 57.

showed that competition was found to be a significant threat to auditor independence. Hudaib (2003)[1] explored and analysed how various factors (including competition) shaped the perceptions of auditors and financial statement users regarding auditor independence in Saudi Arabia. The results indicated that the majority of the respondents perceived high level of competition as one of the most significant threats to auditor independence.

Abu Bakar et al (2005)[2] investigated the impact of competition beside five other factors on perceptions of bank loan officers regarding auditor independence. Results of this study showed that 74.4% of the respondents mentioned that the level of competition in the audit services market influenced auditor independence. Respondents perceived that the higher the level of competition among audit firms the more it will impair auditor independence. In Egypt, Awadallah (2006)[3] studied the effects of four factors including competition on perceptions of auditors regarding auditor's ability to resist pressure from his client's management on audit disputes. Competition was set at two levels; low or high. The results showed that high levels of competition among audit firms increased the risk that auditor independence may be impaired.

Alleyne et al. (2006 a)[4] examined the effects of a large set of 39 audit-relevant issues categorised under a number of generic factors including high levels of competition within the external audit market on perceptions of interested groups in Barbados with respect to auditor independence. Similar to Beattie et al. (1999) three audit environmental factors (audit situations) were used as a proxy measure of competition; audit fee discounting and low-balling, competition among audit firms and budget pressures imposed by audit firm on staff. The results of this study indicated that high competition was found to negatively affect auditor independence.

Contrary to the above results, auditor independence was found not to be affected by competition between audit firms in a number of other previous studies. For example, Knapp (1985) in the US examined the effects of four factors including competition in the audit services market on bankers' perceptions of the auditor's ability to resist client

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[1] - For more details of this study refer to page 63.
[2] - For more details of this study refer to page 58.
[3] - For more details of this study refer to page 59.
[4] - For more details of this study refer to page 58.

pressure. Competition was set at two levels; high and low (definition for what was meant by high or low levels of competition however, was not given in this study). Out of the 70 Bank loan officers were contacted, only 43 agreed to participate in the study making a response rate of 61.4%. Respondents were provided with sixteen cases, resulting from all possible combinations of the treatment levels of the independent variables and a brief narrative explanation of each case. Subjects were asked to record their perceived likelihood that management would obtain its preferred resolution to the dispute on a 7 point Likert scale. Half of the cases involved a conflict issue that were dealt with quite explicitly by the technical standards about disclosure of a subsequent event, the other half of the cases involved the materiality of a financial statement amount, an issue that was not dealt with as explicitly by the technical standards. The results indicated that banker's perceptions of the auditor's ability to resist management pressure were not significantly influenced by the degree of the competition.

Gul (1989)[1] investigated the impact of five factors including competition on perceptions of auditor independence. Competition was set at two levels; high and low. High level of competition referred to when the immediate audit market is characterised by a number of large audit firms that are aggressively pursuing expansion programmes in terms of increasing client number, whereas, low competition referred to when there are few or no competing firms in the audit market. The results of this study showed that the existence of competition was perceived by the participants as increasing auditor independence. Similar result was obtained in the Libyan context when Almalhuf (2003)[2] tested the effect of four factors including competition between audit firms on perceptions of auditor independence. The results showed that auditor independence was perceived not to be affected by the level of competition between audit firms.

Based on the above literature, it could be seen that inconsistent results were achieved by previous research with regard to the effect of competition on auditor independence. Some research has shown that a high level of competition among audit firms was perceived as a potential threat to audit quality and auditor independence. This was due to that audit firms in order to find or to retain clients may respond to client's pressure and

[1] - For more details of this study refer to page 55.
[2] - For more details of this study refer to page 57.

accept audit engagement at lower fees than appropriate for the work (low-balling). In addition, this could lead clients to seek more compliant auditors who are willing to support their proposed accounting treatments (opinion shopping). Contrary to these results, other studies revealed that auditor independence was not affected by competition. It seems however, that this negative effect on independence was based on the assumptions of economic theory that perceives auditor as wealth maximiser who lacks ethical values. Accordingly, more research on this area would provide better understanding of the inherent societal values within which auditors perform their work and assist in explaining why some actions or behaviours of auditors might exist.

4. 1. 4: Auditors' economic dependence on their audit clients.

It has been suggested that auditors' economic dependence will be very significant and may impair their independence if the percentage or income that auditors receive from one or few clients is very high (Barbadillo et al 2006). The greater the probability of losing the client, the more likely the auditor will agree with management and issue an unprofessional audit report. For example, Flint (1988) argues that if an audit firm's major source of income was provided by one client, the audit firm could face serious financial consequences due to the loss of this client. Furthermore, Markelevich et al (2005) contended that large audit fees could result in the auditor becoming "reluctant" to make proper investigations during the audit for fear of losing highly lucrative fees. Similar concern is shared by Hoitash et al (2007) who argue that large fees paid to auditors make them economically dependent on their clients which may encourage a relationship whereby the auditor becomes reluctant to make appropriate inquiries during the audit for fear of losing highly profitable fees.

Economic dependence as a significant threat to auditor independence has been recognised by auditing professional bodies worldwide. For example, the Cohen report (AICPA 1978) directed attention to the importance of the size of audit fees as one of the crucial independence related issues when mentioning that if one or a few large clients supply a significant portion of the total fees of an audit firm, the firm will have great difficulty in maintaining its independence. Similarly, the APB (2004) in its Ethical Standards for Auditors acknowledged the threat of economic dependence. In particular, it stated that an audit firm is deemed to be economically dependent on a listed or non-

listed audit client if the total fees for audit and all other services from that client and its subsidiaries which are audited by the audit firm represent 10% for listed client and 15% for non-listed clients of the total fees of the audit firm. In the same vein, the IFAC (2005) emphasised that a self-interest threat could be created due to the economic dependence and the concern of the possibility of losing the client when the total fees generated by that client represent a large proportion of a firm's total fees.

The effect of the economic dependence (fees) on perceptions of auditor independence has attracted the attention of many researchers. For instance, Gul (1991)[1] investigated the effect of the size of audit fees among other three factors on bankers' perceptions of auditors' ability to resist management pressure in an audit conflict situation. Fee size was described as "significant" or "insignificant" (the study did not specify a percentage for identifying what was meant by 'significant' or 'insignificant' fees). The results showed that when the fee from the audit client was a significant proportion of the auditor's total revenues, perceptions of the auditors' ability to withstand management pressure were adversely affected.

In Libya, Mousa (1992)[2] studied the impact of the percentage of audit fees compared to the total audit firm's income on perceptions of auditor independence. The results revealed that audit fees made a great portion of the total auditors' income. This result has led the researcher to conclude that auditor independence might be affected according to this situation.

In Hong Kong, Gul and Tsui (1992) examined the effects of size of audit fees among other factors on bankers' perceptions of the auditor's ability to resist management pressure in an audit conflict situation. The experiment used a repeated-measures multi-factor ANOVA design with the above three experimental factors each with two treatment levels. The instrument which was used to collect the data was in the form of a short hypothetical case study describing a dispute situation between an auditor and management. It was followed by a questionnaire consisting of eight different scenarios. Each scenario contains one of the treatment levels of the three experimental factors. Size of audit fees was described as "significant" or "insignificant" (the study did not specify a

[1] - For more details of this study refer to page 56.
[2] - For more details of this study refer to page 62.

percentage for identifying what was meant by 'significant' or 'insignificant' fees). Respondents were asked to make a subjective judgment for each of the eight scenarios on a seven-point scale on the likelihood that the auditor would comply to the client's request in solving the "matter in dispute" for each of the eight scenarios being presented in the questionnaire. Out of 40 questionnaires distributed, 38 usable responses were received, making a response rate of 95%. The results of this study indicated that bankers perceived auditors are likely to resolve the conflict in favour of the management client when the size of audit fees was significant.

Bartlett (1993) investigated the effects of different factors including economic dependence (e. g. audit fees represents 1% of total audit firm, and audit fees represents 40% of work supervised by audit partner) on the perceptions of auditors and bank loan officers in the USA. Respondents were asked to indicate their perceptions of auditor independence in ten circumstances which were perceived to have a variety of potential impacts on independence on a scale from 100 (completely independent) to 0 (not independent at all). Out of 600 questionnaires mailed equally to the auditors and bank loan officers, only 243 usable responses were received which made a response rate of 40%. The results indicated that both groups perceived considerably less independence when audit fees were 40% of work supervised by audit partner.

In Malaysia, Teoh and Lim (1996) studied the impact of five factors including auditors' economic dependence on their clients on perceptions of public and non-public auditors regarding auditor independence. Economic dependence was described as "audit fees paid to auditor from single client > 15% of total audit fee". ANOVA analyses was used to analyse the generated data that had a response rate of 69% and 33 % of public firm's accountants and industry's accountants respectively out of 200 questionnaires that were mailed. The results showed that a large audit fee received from a single client was the most important factor leading to impairment of perceptions of auditor independence.

In the UK, Beattie et al (1999)[1] examined the effects of a large set of 45 economic and regulatory factors including economic dependence of auditors on their clients on perceptions of auditor independence. The results showed that economic dependence of

[1] - For more details of this study refer to page 57.

auditors on their clients was perceived to represent the most serious threat to auditor independence.

Geiger and Rama (2003) used a logistic regression model incorporating the proportion of total audit and non-audit fees among other variables to examine the association between the magnitude of audit and non-audit fees and auditor report modification decisions for financially stressed manufacturing companies in the US. From the CD-SEC database, the financial statements of 66 stressed companies receiving a first-time going-concern modified audit opinion were identified and analysed. The results of this study indicated that a significant positive association between the magnitude of audit fees and the likelihood of receiving a going-concern modified audit opinion, which suggests that stressed clients paying high audit fees might obtain a going-concern modified audit opinion from their auditors.

Using a qualitative research methodology, Hudaib (2003)[1] explored and analysed in Saudi Arabia how various factors including auditors' economic dependence on their clients shaped the perceptions of auditors and financial statement users regarding auditors independence. The results of this study indicated that the economic dependence of auditors on the audit client was perceived by the majority of respondents as one of the most significant threats to auditor independence.

The effect of auditors' economic dependence on their audit clients among other factors on perceptions of auditor independence as held by Malaysian Bank loan officers' was investigated by Abu Bakar et al (2005)[2]. The results of this study showed that respondents perceived that the larger the size of audit fees paid by the audit client company to the audit firm (in relation to the total percentage of audit revenues), the more likelihood that auditor independence would be weakened. Similar result was achieved in Barbados when Alleyne et al (2006 a)[3] examined the effects of a large set of 39 audit-relevant issues categorised under a number of generic factors including the economic dependence of auditor on his audit client on perceptions of Barbadian interested groups with respect to auditor independence. The results indicated that the

[1] - For more details of this study refer to page 63.
[2] - For more details of this study refer to page 58.
[3] - For more details of this study refer to page 58.

economic dependence of auditors on their clients was found to have a negative effect on perceptions of auditor independence. Respondents ranked economic dependence as a significant risk for auditor independence.

Although most of the above previous literature revealed that auditor independence was perceived to be undermined due to the economic dependence of auditors on their audit clients, other research have concluded opposite results. For example, Craswell et al (2002) used a model which incorporated proportion of total audit fees among other variables in Australian to examine whether the exercise of auditor independence in the formulation of the audit opinion is affected by the proportion of audit fees that a client contributes to the total fees earned by the auditor. Publicly available data of two samples of Australian listed companies during 1994 (n = 1062) and 1996 (n = 1045) were analysed to test the association between auditor fee dependence and auditor opinion choice. The results showed that the auditor's propensity to issue unqualified audit opinion was not affected by the level of auditor fees dependence.

Despite that some studies concluded that auditor independence was not perceived to be effected by the economic dependence of auditors on their audit clients, the vast majority of the previous research concluded the opposite. Some professional bodies in order to deter the economic dependence threat suggested a cut-off point of the level of the audit fees that might be generated from one client (e.g. 15%). This cut-off point of audit fees could be suitable for developed countries where audit firms have the chance to engage with a large number of different clients but it may not be suitable for other developing countries such as Libya where different economic environment exists. In addition, in some cultures where individuals accept ethical values and religious principles as their main guiding forces in their performance, such policies (cut-off point) may not be suitable. Thus, it would be better to understand the socio-economic environment inherent in the society in which auditors perform before setting any cut-off point of the level of the audit fees.

4. 1. 5: Audit committees.

A firm's audit committee is appointed by the Board of Directors and among its primary responsibilities, which are to oversee the firm's financial statements and reporting

process, is the recommendation of selecting the external auditors to the board, receiving, reviewing, and forwarding to the board the annual financial report of the external auditor (Alleyne et al, 2006 b). An audit committee was defined by the Sarbanes-Oxley Act (SOX, 2002 henceforth) as:

> *"A committee (or equivalent body) established by and amongst the board of directors for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer"* (SOX, sec. 205).

With regard to the audit committee's responsibilities relating to the enhancement of the auditor independence, the SOX Act stated that:

> *"The audit committee of each issuer, in its capacity as a committee of the board of directors, shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work"* (SOX 2002).

It has been argued that the existence of an audit committee would have a positive relationship with auditor independence. For example, many years ago, Goldman and Barlev (1974) suggest that if audit committees were established to deal with selection of audit firms, the negotiation of fees, and participating in matters relating to the auditor's replacement, the power of the client's management over the auditor would be limited. This viewpoint was shared by Green (1994: 138) when he declares that:

> *"By involving the audit committee in the nomination of auditors and in the decision to change auditing firms, a higher degree of independence from management is attained".*

In the same vein, Pomeranz (1997) stresses that auditor independence could be enhanced by a good link between the entire board of directors and the external auditor with the use of an audit committee. An audit committee opens up for the external auditor a direct channel of communication with the board to discuss audit progress and findings and helps resolve conflicts between him and client's management (Arens et al, 2003). Similar opinion was expressed by the Cadbury Committee (1992) when it maintained that the position of the auditor would be strengthened by providing a channel of communication and forum for issues of concern and a framework within which external auditors can assert their independence in the event of a dispute with management.

Furthermore, the Committee recommended in its 1992 Code of Best Practice that all listed companies establish an audit committee, composed of non-executive directors, a majority of whom are independent.

Moreover, the Technical Committee of the International Organization of Securities Commissions (IOSCO) in October 2002 issued a statement titled as: "Principles of auditor independence and the role of corporate governance in monitoring an auditor's independence". Within those principles relating to the audit committee, the following points emphasise the importance of audit committees:

- *The audit committee should be the key representative body with which the external auditor interacts. It should be established with a mandate that permits it to carry out its responsibilities free of any unreasonable restrains. Those responsibilities should include matters such as evaluating whether the audit fees charged by the auditor appear adequate in relation to the work required to support an audit opinion without regret to fees that might be paid to the auditor for other services.*

- *The audit committee should on a regular and frequent basis meet with the auditor without management present and discuss with auditor any contentious issues that have arisen with management during the course of the audit and whether they have been resolved to the auditor's satisfaction.*

- *To monitor independence effectively, it is good practice for the audit committee to discuss with the auditors, at least annually, matters relating to their independence, including all significant threats to independence identified by the auditors and the safeguards implemented. To provide support for such discussions, the audit committee may wish to consider obtaining a written statement from the auditors:*

  - *Confirming that they are, and have been throughout the conduct of the audit engagement, independent in accordance with the terms of all relevant professional and regulatory requirements; and*

  - *Summarising all significant services provided to the entity and its affiliates, together with related fees, identifying separately audit services, other services required to be provided by the entity's auditor, such as in connection with an offering of securities, and other non-audit services grouped according to the nature of the services provided.*

Audit committees however, are likely to be effective in enhancing auditor independence only in circumstances in which the members of the audit committee act in a manner independent of management (Gwilliam and Kilcommins, 1998). It has been argued that a company having an audit committee as part of its corporate governance structure and having an effective audit committee are, of course, two different matters (Sommer, 1992). It is not enough that companies form audit committees. The committee must be composed such that the board of directors can and do rely on it to enhance their monitoring abilities. Therefore, many professional and regulatory bodies have recommended that members of audit committees should have a specific qualification and expertise to discharge their responsibilities. For instance, the SOX Act of 2002 required that each member be independent and recommended that at least one member be an "audit committee financial expert". To be as independent, the Act states that an audit committee member can not accept any fees from the company other than for serving as a director, and can not be an affiliated person of the company or any of its subsidiaries. To qualify as an audit committee financial expert, an audit committee member must have an understanding of economic and accounting principles, comprehend how financial reporting choices and accounting policies can affect a company's financial reports, and possess an understanding of internal controls and procedures.

Such requirements of audit committee's members have been shown to be important for dealing with the complexities of financial reporting and for reducing the occurrence of financial restatements. In addition, it has been argued that audit committee members with financial reporting and auditing knowledge are more likely to understand auditors' judgments and support them in auditor-management disputes than members without such knowledge (DeZoort and Salterio, 2001). In line with this view, Carcello and Neal (2003) argue that audit committees whose members are more independent, have more governance expertise, more financial expertise, and own less of the company's stock, will be likely to support the external auditor when auditor-client disagreement arises. Moreover, audit committees should also meet with their external auditor a number of times each year, both in the presence of management and independent of management in order to enhance and oversee the financial reporting process and to solve any disputes

that might occur between the external auditor and the audit client's management that could undermine auditor independence.

The effect of audit committees on perceptions of auditor independence has been empirically investigated by many previous studies. For instance, Jackson-Heard (1987) examined the effects of five factors including audit committees on the auditor independence as perceived by financial analysts in the US. Audit committee status was divided between that of the client having or not having an audit committee. Participants were asked to respond on a ten-point scale (0 – no confidence to 10 – high confidence) to show their level of confidence in the independence of the auditor in thirty-two scenarios, each scenario represented one of the thirty-two possible combinations of levels of the five factors. Out of the 100 mailed questionnaires, a response rate of 23 per cent was obtained. The results indicated that the existence of an audit committee enhanced the perceptions of auditor independence.

Similarly, Teoh and Lim (1996)[1] studied how the perceptions of Malaysian public and non-public accountants were affected by five factors including audit committees regarding auditor independence. Again audit committee was described as if the client was having or not having an audit committee. The results showed that the existence of an audit committee was found to have a strong positive impact on enhancing auditor independence.

Schleifer and Shockley (1990)[2] investigated the perceptions of four groups (Big Eight audit partners, Non-Big Eight auditors, Bank loan officers, and certified financial analysts) about fourteen policies discussed in the Cohen Commission report (1978) as designed to enhance auditor independence in the US. One of the fourteen policies was related to the responsibilities of audit committees with regard to the appointment of auditors. The results indicated that the majority of the respondents agreed that this policy would enhance auditor independence. Only the loan officers group had a majority disagreeing with this policy. In the UK, Beattie et al (1999)[3] examined the effects of a large set of factors including audit committees on auditor independence. Two proxy

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[1] - For more details of this study refer to page 73.
[2] - For more details of this study refer to page 62.
[3] - For more details of this study refer to page 57.

measures were used to examine the effects of the audit committee: existence or not existence of an audit committee. The results indicated that audit committees were perceived as the principal enhancement factor to auditor independence.

Using a logistic regression model, Carcello and Neal (2003) examined the relationship between the likelihood that a client dismisses its auditor and audit committee characteristics (affiliation, stock owner ship, governance expertise, and financial expertise). A matched-pairs design was used to match on opinion, years, size, and industry companies dismissing their auditor after receiving an initial going-concern report with companies not dismissing their auditor after receiving a new going-concern report. 62 public traded companies of each group were identified from the compact D/SEC database that met the sample selection criteria (received a new going-concern report from a Big-Six audit firm over the period 1988 to 1999, and dismissed their auditor prior to the issuance of the client's next annual report). The results of this study suggested that audit committees with greater independence, greater governance expertise, and lower stock holdings were more effective in protecting auditors from dismissal after the issuance of going-concern reports.

Abu Bakar et al (2005)[1] investigated among other factors the effect of audit committees on perceptions of auditor independence from the perspective of commercial loan officers in Malaysia. The results of this study showed that 87.2 per cent of the participants indicated that the existence of an audit committee has some influence on auditor independence. In particular, the majority of the respondents agreed that the existence of an audit committee in the client company, the greater the auditor independence will be. Similar results were obtained in Barbados when Alleyne et al (2006 a)[2] examined the effects of a large set of economic and regulatory factors including audit committees on selected groups' perceptions regarding auditor independence. The results showed that the existence of an audit committee was the most important factor perceived to enhance auditor independence.

Although auditor independence was believed to be enhanced when an audit committee existed in the audit client company in the above literature, some other research has

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[1] - For more details of this study refer to page 58.
[2] - For more details of this study refer to page 58.

different opinions. For instance, when Gul (1989)[1] investigated the effects of five factors including audit committee on perceptions of auditor independence, the results indicated that audit committees had an insignificant effect on the perceptions of bankers with regard to auditor independence. A possible reason for this result, as Gul concluded, was that there was little awareness of the role and importance of audit committees amongst New Zealand bankers.

It can be concluded from the above literature that auditor independence is perceived in the vast majority of previous literature to be enhanced by the existence of an audit committee in the audit client company. This belief is due to that the power of client's management over the auditor could be limited when the audit committee deals with matters relating to the appointment, remuneration, and removal of the auditor. Accordingly, audit committees are recommended by many professional bodies as an active means of overseeing the financial reporting process. Audit committees however, are likely to be effective in overseeing the financial reporting process and supporting the auditor when disagreement with management arises only if its members act in a manner independent of the client's management.

4. 1. 6: Status and financial condition of the audit client.

The status and financial condition of the audit client has been recognised to have an impact on auditor independence. For example, Watts and Zimmerman (1986) argue that large audit clients due to the complexity of their operations and the increased separation between management and ownership, demand highly independent auditors to reduce agency costs. In addition, large audit clients were suggested to be less likely to receive a qualified audit report because of their ability to pay more audit fees than smaller clients that give them better bargaining power (Hudaib and Cook, 2005). Furthermore, it has been argued that auditors are more likely to remain independent when they audit large enterprises because of client's visibility and reputation protection (Gul, et al 2007).

In addition to the status, the financial condition of the audit client was deemed to have an impact on auditor independence. For instance, Gul and Tsui (1992) argue that in auditor-client disagreement situations, auditors are more likely to resolve the conflict in

[1] - For more details of this study refer to page 55.

favour of management when the client's financial condition is good than when it is poor because a client in good financial circumstances is unlikely to go bankrupt. Furthermore, the financial condition of the audit client may have an influence on the decision of the audit client regarding the retention of the current audit firm or seeking another. Francis and Wilson (1988) point out that audit clients who are insolvent and are experiencing poor financial condition are more likely to seek auditors having high independence to enhance the confidence of shareholders and creditors as well as to lower the risk of litigation.

The possible impact of the status and financial condition of the audit client on auditor independence has been previously investigated by researchers in many different countries. For example, in the USA, Knapp (1985)[1] examined the effects of four factors including client's financial condition on bankers' perceptions of auditor's ability to resist client pressure. Client financial condition was set at two levels: good and poor. Good financial condition was described as the firm's entire solvency and profitability ratios compare favourably to industry averages and the Net income has shown a modest but steady growth pattern over the last five years. The results of this study indicated that an audit client in a good financial condition was perceived as being more likely to obtain its preferred outcome to an audit conflict than a client in a poor financial condition.

Similarly, Gul and Tsui (1992)[2] in Hong Kong investigated the effects of three factors including the financial condition of the audit client on perceptions of Bankers regarding auditor's ability to resist management pressure in an audit conflict situation. Financial condition of the audit client was described as good and poor. Good financial condition was described as the firm's entire solvency and profitability ratios compare favourably to industry averages and the Net income has shown a modest but steady growth pattern over the last five years whereas poor financial condition is the reverse. The results showed that lending officers had less confidence in auditor's ability to resist management pressure when the financial condition of the audit client was good.

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[1]- For more details of this study refer to page 68.
[2] - For more details of this study refer to page 71.

In the UK, Beatie et al (1999)[1] studied the impact of size and financial condition of the client among other factors on perceptions of some interested parties regarding auditor independence. The results of this study showed that auditor independence was not perceived to be effected by the size of the audit client which was ranked near the end. On the other hand, most of the respondents perceived a client in a weak financial condition as one of the threatening factors to auditor independence. In another study in the UK, Hudaib and Cooke (2005) used a logistic regression model to examine the interactive effects of change in managing directors (MD) and financial distress together with five control variables including financial condition of the client on audit opinion and auditor switching. Financial condition of the client was described as "financial distress" or "not financial distress". Not financial distress company refers to a company which is solvent and is highly unlikely to fail within the next year while financial distress refers to a company which has a financial profile similar to financially distressed companies. The relevant information was extracted from the annual reports of 297 non-financial UK companies listed on the London Stock Exchange over a period from 1987 to 2001. The results of this study indicated that clients that were financially distressed and change their MD were most likely to receive a qualified audit report compared to non-distressed clients regardless of a change in MD. According to this result, the researchers concluded that financial distress rather than change in MD is the driver for qualification.

In order to provide evidence on the relationships between audit switching and five variables including client size, Abdul Nasser et al (2006) examined the behaviour of audit tenure and switching in the Malaysian audit environment for the period from 1990 to 2000. Audit client size was divided to large and not-large. The relative data (financial statements and audit reports) were collected from Kuala Lumpur Stock Exchange Institute Database regarding a randomly selected sample of 297 companies listed in the KLSE. A logistic regression model was used to test for the relationships between auditor switching and the other variables. The results of this study indicated that client size was significantly associated with auditor switching. Accordingly, the authors concluded that the likelihood of non-distressed large clients to switch is significantly less compared with distressed small clients.

[1] - For more details of this study refer to page 57.

In Barbados, Alleyne et al (2006 a)[1] examined the effects of a large number of factors including size and financial condition of the audit client on perceptions of auditor independence. Similar to the results of Beatie et al (1999), size of the audit client was not seriously perceived to have an impact on auditor independence. In contrast, the weak financial condition was perceived by most of the respondents as one of the threatening factors to auditor independence.

Although most of the above previous literature suggests that auditor independence is perceived to be affected due to the status and financial condition of the audit client, other researchers have concluded opposite results. For example, Gul (1989)[2] examined how New Zealand bankers' perceptions were affected by five factors including the financial condition of the audit client with regard to auditor independence. Financial condition of the audit client was set at two levels: good and poor (the meaning of good or poor however, was not identified in this study). The results indicated that the effect of the financial condition of the audit client was found to be insignificant. The possible reason for this insignificant effect of the financial condition of the audit client, as Gul concluded, was due to the less awareness of the New Zealand bankers of the possibility that an auditor would have more difficulty resisting management pressure when the client's financial condition was strong than when the client's financial condition was poor.

The conclusion that can be drown from the above is that most of previous literature relating to the perceived effect of the status and financial condition of the audit client on auditor independence show that companies which are large and in good financial condition are perceived to be less likely to receive a qualified auditor report because of their ability to pay more audit fees than smaller clients that give them a better bargaining position. In addition to this belief, others suggest that small audit clients usually seek auditors who have a high level of independence to enhance the confidence of interested parties of their performance.

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[1] - For more details of this study refer to page 58.
[2] - For more details of this study refer to page 55.

4. 1. 7: Personal relationships.

Personal relationships between auditors and their clients have been suggested as having an adverse impact on auditor independence. For instance, Flint (1988) argues that as the auditor-client personal relationships increase, other interested parties may question whether the auditors' mental attitudes, judgments or opinions might be influenced and independence will be compromised. The personal relationships such as family, friendship and employment relationships between auditors and individuals in the audit client who are in a position to influence the preparation of the financial statements have been recognised by the professional bodies worldwide as threats to auditors' objectivity and independence. For example, the APB (2004) in the case of family relationships stated that self-interest and familiarity or intimidation threats to the auditor's objectivity and independence might be created when a member of an audit firm has a personal relationship with the audit client. Similarly, the IFAC (2005) stated that threats to auditor independence may be created when an immediate family member of the audit client is a director, an officer or an employee of the audit client in a position to exert direct and significant authority over the preparation of financial statements. In addition, the IFAC (2005) warned that close relationships between auditors and members of the audit client other than immediate or close family members (e.g. director, an officer or an employee) may create threats to auditor independence.

Another kind of personal relationship that might create a threat to auditor independence is the employment of an ex-auditor with an audit client. Beasley et al (2000) argue that audit firms might be less likely to conduct an appropriate audit after an ex-auditor joins the audit client's management team because the remaining members of the audit team may be reluctant to question a former audit colleague who is now responsible for the audit engagement. In addition, the ex-auditor's knowledge of the audit firm's plans and strategies enables him to design a misstatement that is unlikely to be discovered by his former audit firm. The potential threat to auditor independence that an employment relationship might pose has been recognised by Professional bodies and several provisions regarding this issue have been enacted. For example, the APB (2004) warned that objectivity and independence may be threatened where a director or an officer or an employee of the audit client who is in a position to influence the preparation of the

financial statements was previously an ex-auditor with the audit firm. Furthermore, the APB recommended that audit firms should not re-engage as auditors until a two-year period has elapsed since the former partner ceased to join the client. Similar assertion was expressed in the US when the Sarbanes-Oxley Act (2002) stated:

> *"It shall be unlawful for a registered public accounting firm to perform for an issuer any audit service required by this title, if a chief executive officer, controller, chief financial officer, chief accounting officer, or any person serving in an equivalent position for the issuer, was employed by that registered independent public accounting firm and participated in any capacity in the audit of that issuer during the 1-year period preceding the date of the initiation of the audit"* (SOX, Sec 206)

The effect of personal relationships on perceptions of auditor independence has been empirically investigated by many previous studies. For example, Lindsay et al (1987) examined the effects of fifteen auditor-client relationships including three personal relationships (e. g. employment and family) on perceptions of Canadian interested groups regarding auditor independence. The respondents were asked to indicate whether they perceived the audit firm to be independent in each situation (*yes/no*). A mailed questionnaire sent to a randomly selected sample of 400 auditors, 400 financial analysts and 400 loan officers and overall response rate of 38% was obtained. The results showed that the majority of the respondents in each group did not perceive the auditor independence to be impaired with the family relationships, but with respect to the employment situation, the majority of the financial and bankers group considered the auditor not to be independent in this situation.

Schleifer and Shockley (1990)[1] studied perceptions of four interested groups in the US regarding fourteen policies designed to enhance auditor independence. One of the fourteen policies was that audit firms should be prohibited from helping their employees find employment with audit clients. The results from this study showed that most of the respondents from the auditors group disagreed with this policy. On the other hand, the majority of respondents from the financial statement users group supported this restriction. This result suggests that users groups perceived the employment of ex-auditors with their clients as adversely affecting auditor independence. In Libya, Mousa (1992)[2] found that some auditors have personal relationships with their audit clients. In

[1] - For more details of this study refer to page 62.
[2] - For more details of this study refer to page 62.

particular, 36% of the participants from the external auditors group noticed that auditing were performed by auditors who previously were one of the executive directors of the audit clients' management. This result has led the researcher to conclude that an adverse effect on auditor independence might be developed.

Kilcommins (1997) investigated the impact of six factors including client employment on perceptions of auditor independence and the reliability of financial statements held by interested parties in Ireland. Both mailed questionnaires and semi-structured interviews were used for collecting data. Participants in the mailed questionnaire were presented with a number of statements including employment relationship and were asked to indicate how often they would consider the auditor to be independent in each situation. Out of the 196 mailed questionnaires, 148 usable responses were received that made a response rate of 75.5%. The results showed that auditor independence and reliability of financial statements were perceived to be significantly impaired when the auditor took up an employment position with a former audit client.

Hudaib (2003)[1] explored and analysed how various factors including personal relationships shaped the perceptions of auditors and financial statement users regarding auditor independence in Saudi Arabia. Personal relationships in this study referred to blood relationships, close friendship and employment with audit client relationships. The results showed that most of the financial statement users group identified the above personal relationships as impairing auditor independence. The auditors group however, did not share the same viewpoint. This made the author to conclude that auditors in spite of their acknowledgement that these relationships could impair independence, they believed that they could still be objective as they were guided by their ethical conscience.

It seems from the above literature that previous research has perceived personal relationships such as family relationships, friendship and employment relationships as a significant threat to auditor independence. In order to deter the threat of such relationships, some professional bodies, recommended policies to prevent auditors from auditing their clients when a member of an audit firm has personal relationships with

[1] - For more details of this study refer to page 63.

key personnel in their audit clients. Despite the justified fear of the threat that personal relationships might have on auditor independence, it has to be noted before implementing any rules regarding this issue that in some societies such as Libya personal relationships are very strong and dominant and most of the economic and business activities are heavily dependent on these relationships. In addition, usually such developing countries are suffering from shortage of qualified auditors. Therefore, norms and ethical values of such societies in which auditors perform their work should be considered because auditors could still maintain their independence due to their religious beliefs and ethical values.

4. 1. 8: Financial relationships.

Financial relationships between auditors and their audit clients other than audit fees have been recognised by professional bodies as possible threat to auditor independence. These include shareholdings, receipt of loans and overdue audit and non-audit fees. For example, in the UK the APB (2004) acknowledged the threat to auditor's objectivity and independence due to the existence of financial relationships between auditors and their clients and prevented audit firms, any partner or members of the audit firm who are able to influence the conduct and outcome of the audit, and any immediate family member of such persons from holding any direct or "material" indirect financial interest in the audit client or in an affiliate of an audit client. Similarly, the EU Eight Directive (2005) emphasised that auditors should not perform an audit if there are any financial or business relationships between the auditor and the client because this might compromise the auditor independence (Soltani, 2007). Internationally, the IFAC (2005) adopted similar provisions to that of the APB (2004) and prohibited auditors or their immediate family members from developing any direct or "material" indirect financial relationship with the audit client.

The rational reasoning behind this prohibition by the professional auditing bodies, as Moizer (1997) argues, is that beneficial shareholdings in audit clients creates an incentive for auditors to act in such a way as to maintain a false market value of the client which is against the interests of future shareholders at whose expense an existing shareholder (such as the auditor) could profit by selling shares at an inflated value,

hence an auditor shareholder has an incentive to mislead potential shareholders and therefore not to act in an independent way.

The effect of financial relationships on perceptions of auditor independence has received considerable attention and was examined in several previous studies. For instance, Bartlett (1993)[1] examined how perceptions of auditors and bank loan officers in the US were affected by a number of auditor-client relationships including financial relationships. The subjects of this study were asked to indicate whether they consider the auditor to be independent when the audit firm was a partner in a joint venture with an audit client. The results showed that both groups perceived that joint venture arrangements with audit clients severely reduced auditor independence.

In the UK, Beattie et al (1999)[2] investigated how perceptions of auditor independence were effected by a large set of 45 economic and regulatory factors including financial relationships (unpaid audit fees). The results showed that most of the respondents perceived unpaid audit fees as one of the most threatening factors to auditor independence. A similar result was obtained by Hudaib (2003)[3] when he studied how various factors including financial relationships shaped the perceptions of auditors and financial statement users regarding auditor independence in Saudi Arabia. Financial relationships in this study referred to receipt of loan, overdue non-audit fees, trade and rent relationships and shareholdings. The results showed that the above financial relationships were perceived by the participants as posting the most significant threat to auditor independence.

In a similar study to that of Beattie et al (1999), Alleyene et al (2006 a)[4] examined how perceptions of Barbadian interested groups were effected by a large set of 39 auditor-client relationships including financial relationships (unpaid audit fees) regarding auditor independence. The results of this study indicated that unpaid audit fees were perceived by most of the respondents as a threatening factor to auditor independence.

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[1] - For more details of this study refer to page 72.
[2] - For more details of this study refer to page 57.
[3] - For more details of this study refer to page 63.
[4] - For more details of this study refer to page 58.

Nevertheless, Lindsay et al (1987)[1] obtained different results when they examined the effects of three financial relationships among fifteen auditor-client relationships on perceptions of Canadian interested groups regarding auditor independence. The results indicated that most of the respondents perceived financial relationships as not impairing auditor independence, except for one situation where only the auditors group perceived auditor independence to be impaired. A possible explanation for this result, as the researchers suggested, is that auditors have a better understanding of the concept of independence than the other participants.

Based on the above literature it can be seen that financial relationships such as shareholdings, receipt of loans and overdue audit and non-audit fees between auditors and their audit clients were found by most of the previous research to create a threat to auditor objectivity and independence. Regarding this issue, some professional bodies prohibited auditors or their immediate family members from developing any direct or (material) indirect financial relationships with their audit clients. This was because auditors might have incentives to act in a biased way to maintain a false market value of companies who they hold shares on. Despite the perceived threat that financial relationships might have on auditor independence, it is vital to consider and understand the socioeconomic structure of the particular society in which auditors conduct their work before implementing any rules regarding this issue that might be inappropriate.

4. 1. 9: Provision of non-audit services (NAS).

The provision of NAS by auditors to their audit clients have been the subject of the most heated debate among all other factors identified in the independence literature which might effect perceptions of auditor independence. The controversy surrounding auditors providing NAS to their audit clients centres around the ability of such auditors to evaluate objectively the client's financial statements while at the same time providing consulting services to the same client (Mautz and Sharaf, 1961; Shockley, 1982; Flint, 1988; Clikeman, 1998; Canning and Gwilliam, 1999; Firth; 2002). For instance, Mautz and Sharaf (1961) argued that audit firms by providing NAS to their audit clients impair auditor independence because giving advice and decision making can not be separated

[1] - For more details of this study refer to page 85.

and that the auditor who provides NAS cannot avoid participation in management decisions. In the same vein, Firth (2002) contended that provision of NAS to an audit client will increase auditor's economic dependence on that client. As a result, a decrease in auditor independence or a perception of a lack of independence will occur. In addition, he added that the auditor will be reluctant to adversely report on items that are the result of, or partly the result of, his/her consultancy advice.

The concern about the threat that NAS could pose on auditor independence was acknowledged by professional bodies worldwide. For example, in the US, the Metcalf Committee Staff Study (1976) suggested that providing both services (auditing and NAS) by audit firms to their audit clients can create a conflict of interest, particularly when an audit firm helps to recruit a client's executives and is interested in assuring their success, or when it installs a management information system and subsequently audits the reliability and accuracy of its own work. In these situations, an audit firm acting as both auditor and consultant may be motivated not to report consulting deficiencies observed during the audit, thereby avoiding erosion of its consulting in general.

Consistent with these views, the SOX Act of 2002 prohibited audit firms in the US from providing some NAS to their audit clients. Specifically, section (202) of the Act stated that it shall be unlawful for a registered public accounting firm, in charge of the audit of a company's financial statements, to provide to that issuer, contemporaneously with the audit, any NAS including: 1) Bookkeeping or other services related to the accounting records or financial statements of the audit client, 2) Financial information systems design and implementation, 3) Appraisal or valuation services, fairness opinions, or contribution-in-kind reports, 4) Actuarial services, 5) Internal audit outsourcing services, 6) Management function or human resources, 7) Broker or dealer, investment adviser, or investment banking services, 8) Legal services and expert services unrelated to the audit, and 9) Any other services that the Board determines, by regulation, is impermissible.

In the UK, the professional bodies did not prohibit audit firms from providing NAS to their audit clients, but they consider independence to be impaired if providing NAS to audit clients leads to the exercise of management functions. For example, GPES (1.202, Para. 4.56) stated:

"There is no objection to a firm providing advisory services to a company which are additional to the audit. Care must be taken to ensure not to perform management functions or to make management decisions. It is economic in terms of skill and effort for professional accountants in public practice to be able to provide other services to their clients since they already have a good knowledge of their business. Many companies (particularly smaller ones) would be adversely affected if they were denied the right to obtain other services from their auditors".

Similarly, the APB (2004) emphasised that a threat to auditor objectivity and independence arises due to provision of NAS by audit firms to their audit clients and recommended that audit firms should not undertake any engagement to provide NAS where auditors would place significant reliance up on those NAS as part of the audit of the client's financial statements. The threat to auditor independence due to the provision of NAS has led some countries such as Japan, France, Belgium, Italy and Kenya to prohibit auditors from supplying NAS to their audit clients (Firth, 2002). The EU Directive (2004) required that an external auditor should be able to demonstrate that his/her independence has not been compromised by providing NAS to an audit client for which the remuneration received is disproportionate to the work performed, and recommended that information about NAS such as provision of financial information, technology, internal audit, valuation, litigation and recruitment services should at least be disclosed (Soltani, 2007).

Internationally, the IFAC (2005) recognised the threat to auditor independence due to the provision of NAS by audit firms to their audit clients and stated that a significant self-interest or self-review threat will be created as auditors perform a number of activities such as i) Authorising, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so, ii) Determining which recommendation of the firm should be implemented, and iii) Reporting, in a management role, to those charged with governance (IFAC, Para 290.159: 57).

Contrary to the above arguments, another viewpoint exists in the auditing literature that deems auditor independence will not be impaired by auditors providing NAS to their audit clients. For example, Higgins (1962) argued that providing NAS by audit firms to their audit clients does not negate the independence of the consultant. He contended that if circumstances in which an individual auditor's opinions are improperly influenced by

NAS, the source of the problem is not the provision of NAS but rather a basic weakness in the auditor's ethical constitutions. A similar idea was expressed by Carey and Doherty (1966) when they argued that auditor independence will not be affected as long as auditors confined their provision of NAS to advice, and do not involve in the final decision-making process of their audit clients.

These thoughts were supported by The Cohen Commission (1978) in the US when it concluded that provision of NAS did not compromise an auditor's ability to remain independent and recommended auditors to fully inform the board of directors or its audit committee of all of such services and their relationship to the audit services. The Commission however, emphasised that efficiencies may be associated with the joint supply of the two services. Similarly, the Council of the ICAEW (1987) maintained that:

> *"The provision of some NAS by the auditor will often assist the auditor to perform the task effectively, by adding to his knowledge of relevant aspects of the business affairs and given that the objective of the independence requirements is to support the quality of audit services provided, a ban on the provision of other services could, therefore, be counter-productive".*

With regard to the Libyan context, article No 25 of Law No. 116 which governs the accounting and auditing practices in Libya prohibited auditors from combining their status as public accountants with certain activities. These include: a) ministerial position, b) any public post, permanent or temporary, with salary or compensation (unless he was permitted to do so according to the provision of this law), c) any commercial activities and d) all other activities which are not compatible with the profession (Law No. 116, article 25: 14). Accordingly, Kilani (1988) assumed that the auditor in Libya may render any service required by his client such as bookkeeping, auditing, tax services, liquidation, management services, system design and installation, and public sector financial management.

In addition to the above two views, another viewpoint argues that the provision of NAS may strengthen the independence of auditors. For instance, Goldman and Barlev (1974) argue that the more NAS provided to the audit client, the greater the power and independence of the auditor. In particular, they state that:

> *"This occurs because most consulting-type services are non-routine and because these services benefit the client firm directly. Consequently, the replacement of the*

consulting auditor may result in a loss of valuable advice to the firm. His bargaining position therefore becomes stronger; he is better equipped to resist interference in the performance of his auditing duties and is more likely to retain his independence" (Goldman and Barlev, 1974:751).

Permitting auditors to provide NAS to their audit clients may allow them to supply different types of services that leave them less dependent on one or few clients (Grout et al, 1994). In the same vein, Arrunada (1999) argues that the provision of NAS by auditors to their audit clients reduces total costs, increases technical competence and motivates more intense competition and it does not necessarily impair auditor independence or the quality of NAS. Furthermore, he contended that the provision of such services can in fact; enhance professional judgement through increased familiarity that auditor will have with the client, especially in relation to areas such as intangible assets, and through the efficient use of experts. Defond et al (2002) contend that the concerns about NAS are based on the assumption that auditors are willing to sacrifice their independence in exchange for retaining profitable clients. They argued that this assumption ignores the auditor's expected costs of compromising their independence such as loss of reputation and litigation costs that are likely to provide strong incentives for auditors to maintain their independence.

The effect of Provision of NAS on perceptions of auditor independence has received considerable attention and was examined in several previous studies. For example, Jackson-Heard (1987)[1] investigated the effects of five factors including provision of NAS on auditor independence as perceived by financial analysts in the US. Provision of NAS was divided as "over 50% of audit fee" and "not over 50% of audit fee". The results of this study showed that the participants' confidence in the external auditor independence was significantly higher when NAS fees were less than or equal to 50% of audit fee than when NAS fees were more than 50% of audit fee. Similarly, in Canada, Lindsay (1990)[2] examined the effects of four factors including provision of NAS on perceptions of bank loan officers with respect to auditor's ability to resist management pressure. Provision of NAS was set at two levels; provision of NAS at level of 40% of audit fee and NAS were not provided at all. The results of this study indicated that

[1] - For more details of this study refer to page 78.
[2] - For more details of this study refer to page 55.

provision of NAS at a level of 40% of audit fee was perceived by the respondents as a factor that may impede an audit firm in its attempt to take a strong independent stance.

In the UK, Beattie et al (1999)[1] investigated the effects of a number of auditor-client relationships including provision of NAS by auditors on auditor independence. The results indicated that auditor independence was perceived to be threatened by the four NAS situations. In another study in the UK, Hussey and Lan (2001)[2] studied how finance directors perceived the three key questions posed by the Board for Chartered Accountants in Business (1990) regarding enhancing auditor independence. One of the questions related to the prohibition on firms undertaking work other than audit for their audit clients. The results showed that finance directors agreed that prohibition of non-audit work for the same audit client would enhance perceptions of auditor independence.

Sharma and Sidhu (2001) used a logit model to investigate the effects of the joint provision of NAS and audit services on auditor's propensity to issue a going-concern opinion in the year preceding bankruptcy. The audit reports and financial statements of a selected sample of 49 bankrupt Australian public companies were analysed. The results of this study indicated that the higher proportion of NAS fees relative to total fees influenced the auditor's decision to issue a going-concern opinion. The authors concluded that auditor independence may be impaired due to the economic dependence of the auditor on the audit client.

In Saudi Arabia, Hudaib (2003)[3] investigated how various factors including provision of NAS effected perceptions of auditors and financial statement users regarding auditor independence. The results of this study indicated that most financial statement users considered NAS as impairing auditor independence but less so in terms of bookkeeping services. Most auditors however, perceived neither bookkeeping services nor NAS as impairing independence.

Quick and Rasmussen (2005) examined the effects of provision of NAS by audit firms to their audit clients on perceptions of five groups in Denmark; state authorized auditors, managing directors, bank loan officers, private shareholders and business journalists.

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[1] - For more details of this study refer to page 57.
[2] - For more details of this study refer to page 63.
[3] - For more details of this study refer to page 63.

Out of the 927 mailed questionnaires, only 481 usable responses were received making a response rate of 52 per cent. Participants were asked to give their view of several statements relating to the provision of NAS. The results of this study showed that provision of NAS was perceived by the respondents to have a negative effect on auditor independence.

Awadallah (2006)[1] studied the effects of four factors including provision of NAS on perceptions of Egyptian auditors regarding auditor's ability to resist client's management pressure on audit disputes. Provision of NAS was restricted to two levels, provided or not provided. The results indicated that the participants perceived that audit firms which provide NAS to their audit clients act as if they have relatively less power in conflict situations than those which did not. A similar result was obtained by Alleyne et al, (2006 a)[2] when they examined how a large set of 39 auditor-client relationships including provision of NAS effected perceptions of Barbadian interested groups regarding auditor independence. In particular, auditor independence was perceived to be threatened by the provision of NAS.

Opposite to the above, some other researchers have concluded different results. For example, Knapp (1985)[3] investigated the effects of four factors including provision of NAS on bankers' perceptions of auditor's ability to resist client's management pressure. The respondents were asked to indicate their perceptions on the likelihood that management would obtain its preferred resolution in a conflict situation when NAS provided by the audit firm at the level of 0% and 40% of audit fees. The results showed that the provision of a significant amount of NAS by an audit firm slightly increased the apparent likelihood of a conflict of being resolved in favour of the client.

Gul (1989)[4] examined the effects of five factors including provision of NAS on perceptions of bankers in New Zealand regarding auditor independence. NAS was restricted to two levels, provided or not provided. The results of this study showed that the provision of NAS affected the bankers' perceptions of auditor independence but not in the predicted direction. Bankers had higher confidence in auditors who provide NAS.

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[1] - For more details of this study refer to page 59.
[2] - For more details of this study refer to page 58.
[3]- For more details of this study refer to page 68.
[4] - For more details of this study refer to page 55.

Gul concluded that the increased bankers' confidence in auditor independence when they provide NAS could be attributed to the scenarios that NAS was provided by a separate department within the audit firm.

Defond et al (2002) used a logistic regression model to investigate the association between NAS fees and the auditor's propensity to issue a going-concern audit opinion. The analysis of audit reports and financial statements of a sample of 1.158 US financial distressed companies indicated that no significant association between NAS fees and impaired auditor independence. The authors concluded that market-based incentives such as loss of reputation and litigation costs, dominate the benefits auditors are likely to receive from compromising their independence to retain clients that pay larger fees.

Almalhuf (2003)[1] among several issues tested the effect of four factors including NAS on perceptions of external auditors and financial statement users with respect to auditor independence. The results of this study showed that auditor independence was perceived not to be effected by the provision of NAS.

Geiger and Rama (2003)[2] used a logistic regression model incorporating the proportion of total audit and non-audit fees among other variables to examine the association between the magnitude of audit and non-audit fees and auditor report modification decisions for financially stressed manufacturing companies in the US. The results of this study indicated no significant association between NAS fees and auditor opinion, in addition the results reviled that no significant relationship between the ration of NAS fees to audit fees and reporting decisions.

It can be seen from the above theoretical arguments and empirical results that conflicting evidence has been produced as to the effect of provision of NAS on perceived auditor independence. Some believed that provision of NAS to clients make auditors unable to evaluate objectively the client's financial statements because of their involvement in some of the clients' decision-making process that put them in a position of auditing their own work. As a result, many voices were raised to demand a complete or partially ban on provision of NAS. Others believed that provision of NAS will not impair auditor

[1] - For more details of this study refer to page 57.
[2] - For more details of this study refer to page 73.

independence as long as auditors confine their provision of NAS to advice and are not involve in the final decision-making process of the audit client. A third group believed that auditor independence will be enhanced when NAS are provided due to the increased familiarity that auditors will have with their clients that puts them in a unique position to provide such services. The above mixture of theoretical arguments and empirical results on the perceived effect of the provision of NAS on auditor independence could be attributed to the differences of the nature of the structure of the economic environments in which previous research has been conducted. Thus, it would be better to consider and understand the specific nature of the economic environment in which auditors perform their duties before implementing policies such as complete banning of providing NAS, especially in developing countries that suffer from a shortage of skilful professional auditors.

4. 2: Limitations of the literature review (the literature gap).

Based on the above review of the previous literature related to the effect of the nine selected factors on perceptions of auditor independence, some limitations can be highlighted.

Firstly, the majority of the research on perceptions of auditor independence has been conducted in developed and some capitalist developing countries (UK, USA, Australia, New Zealand, Canada, Ireland, Greece, Denmark, Hong Kong, Singapore, Malaysia, Barbados) where one might expect no significant differences in context, while little is known from developing countries such as Libya where research on this contentious issue is deficient.

Secondly, most of the previous empirical studies were limited in relying entirely either on quantitative or qualitative data. In addition, it can be seen that a large number of studies used an experimental design by using repeated-measure (within-subject design or between-subject design) that restricts the number of factors that could be examined. Normally, the number of factors and levels are kept small in order to keep the experimental task manageable. Furthermore, repeated measure design can result in false significant differences because the subjects are over sensitised to the variables and hypotheses being tested and reply cooperatively (learning and demand effects).

Thirdly, some of the previous studies have shown conflicting results with respect to perceptions of auditor independence due to not giving enough consideration to some elements of culture that prevails in a country. For example, in some cultures individuals do not depend too much on regulatory rules and standards in their performance and accept ethical values and religious principles as their main guiding forces. In addition to the differences in the methodology and in results, it can be seen from (Appendix A) that studies differed in relation to the type of the required response (dichotomous / scaled), the number of examined factors, the research groups and sample size, the obtained response rate and whether independence in the researched factors was defined or not.

Fourthly, the majority of the previous empirical studies have focused on identifying the factors that might pose a potential threats to auditor independence, while potential enhancement factors were not given due consideration.

Finally, as the environment within which the audit operates is subject to continuous changes, interest in perceived auditor independence will continue due to new situations that might be seen to threaten or enhance auditor independence. Thus, assessing whether interested parties are maintaining their confidence in auditor independence is an ongoing process.

4. 3: Summary.

Nine factors considered to be suitable for the purpose of this study were selected from a comprehensive literature review. These included the size of the audit firm, tenure of the audit firm, competition among audit firms, auditors' economic dependence on their audit clients, audit committees, status and financial condition of the audit client, personal and financial relationships and provision of NAS. This section aims to summaries the theoretical and empirical arguments relating to the above selected factors as follows:

The size of an audit firm: Large audit firms were perceived to be more independent than smaller audit firms. This is due to several reasons such as that large audit firms usually are not dependent on one or few clients for their income, they perform in a professional manner, they do not develop close relationships with their clients, and their numerous experienced and qualified staff that allows them to provide high audit quality.

Audit firm tenure: Some believed that a long association between audit firms and their clients may lead to the development of an "over-cosy relationship" that could adversely affect auditor independence and reduce the reliability and quality of the audit. Others believed that the costs of audit firm rotation outweigh the benefits and the experience and knowledge that is gained over time in improving quality work would be wasted with the appointment of a new auditor. In addition, problems with audit reporting and independence may be more likely to arise in the earlier years of the auditor-client relationship.

Competition between audit firms: Auditor independence was perceived to be adversely effected due to the high level of competition between audit firms. Contrary to this viewpoint, other empirical results indicated that auditor independence was perceived not to be affected. Furthermore, a few empirical results showed that independence was perceived to be enhanced by competition.

Auditors' economic dependence on their audit clients: Auditor independence was considered to be impaired if auditors were economically dependent upon clients for their income. Large audit and non-audit fees paid to auditors make them economically dependent on their clients that may lead to a relationship whereby the auditor becomes reluctant to make appropriate inquiries during the audit for fear of losing highly profitable fees.

Audit committees: Auditor independence was perceived to be enhanced by the existence of an audit committee in the audit client company. The power of a client's management over the auditor could be limited when the audit committee deals with matters relating to the appointment, remuneration, and removal of the auditor. Audit committees, however, are likely to be effective only if its members act in a manner independent of the client's management.

Status and financial condition of the audit client: Some believed that companies which are large and in good financial conditions are less likely to receive a qualified auditor report because of their ability to pay more audit fees than smaller clients that gives them a better bargaining position. Others suggested that small and poor audit

clients usually seek auditors who have a high level of independence to enhance the confidence of interested parties of their performance.

Personal relationships: Personal relationships such as family, friendship and employment relationships were perceived as a significant threat to auditor independence. In order to deter this threat, some professional bodies recommended policies that prevent auditors from auditing their clients when a member of an audit firm has personal relationships with audit clients.

Financial relationships: financial relationships such as shareholdings, receipt of interest free loans and overdue audit and non-audit fees were perceived as significant threat to auditor objectivity and independence because such relationships might provide auditors with incentives to act in a biased way to maintain a false market value of companies where they have financial interests.

Provision of non-audit services (NAS): Some believed that provision of NAS makes auditors unable to evaluate objectively the client's financial statements because of their involvement in the clients' decision-making process puts them in a position of auditing their own work. Additionally auditors' economic dependence on their audit clients will increase which might decrease auditor independence or a perception of a lack of independence. Others believed that provision of NAS will not impair auditor independence as long as auditors are not involved in the final decision-making process. On contrast, a third group believed that auditor independence will be enhanced when NAS were provided due to the increased familiarity that auditors will have with their clients that puts them in a unique position to provide such services.

Chapter five:

Research methodology

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Research methodology

5. 0: Introduction.

The previous chapter covered the relevant prior research that relates to the perceptions of auditor independence. This chapter aims to describe the research methodology. It is organised into three main sections. The first section presents and identifies the two dominant paradigms that have shaped social science research (Positivism and Phenomenological paradigms). An overview of the quantitative, qualitative and mixed research methodologies is also outlined in this section. The second section deals with the methods of collecting primary data (questionnaire and interview). Finally, a brief summary of the contents of the chapter is provided in the third section.

5. 1: Research paradigms.

The concept of paradigms of social science has been heavily discussed in the literature (Creswell, 1994; Remenyi et al, 1998; Collis and Hussey, 2003). According to Chua (1986) and Gummesson (1991) the term paradigm was introduced for the first time by Thomas Kuhn in the early 1960s. The meaning of paradigm has been defined by Johnson et al (2007: 129) as:

> *"A set of beliefs, values, and assumptions that a community of researchers has in common regarding the nature and conduct of research".*

According to Collis and Hussey (2003) a paradigm refers to the progress of scientific practice based on people's philosophies and assumptions about the world and the nature of knowledge, more specifically, about how research should be undertaken. Paradigms provide a framework comprising an accepted set of theories, methods and ways of defining data. Remenyi et al (1998: 32) states that:

> *"A paradigm or theory is no more than conventional wisdom of the subject, thus empirical research should be fundamentally rooted in theory and it is impossible to conduct such research in a meaningful way without the researcher taking a specific theoretical standpoint".*

Collis and Hussey (2003) and Remenyi et al (1998) identified two main research philosophies or paradigms to describe the researchers' beliefs about the world that will

be reflected in their way of designing the research, and how data would be collected and analysed. These paradigms are: Positivist and Phenomenological. Collis and Hussey (2003) suggest that it is best to regard these paradigms as the two extremes of a continuum. As one moves along the continuum, the features and assumptions of one paradigm are gradually relaxed and replaced by those of the other paradigm.

The key idea with positivism is that the social world exists through objective measures, instead of being inferred subjectively through sensation or intuition (Milliken, 2001). On the other hand, phenomenologists consider the world is socially constructed and subjective, therefore, people place different meanings based on their experiences. Table (5. 1) shows the different assumptions of the two main paradigms as suggested by Creswell (1994). He refers to the positivistic paradigm as quantitative and the phenomenological paradigm as qualitative[1].

a) Ontological: According to this assumption, the world must be considered as objective and external to the researcher, or socially constructed and only understood by examining the perceptions of the human actors.

Table (5. 1): The assumptions of the two main paradigms.

Assumption	Question	positivistic	phenomenological
Ontological	What is the nature of reality?	Reality is objective and singular, apart from the researcher	Reality is subjective and multiple as seen by participants in a study
Epistemological	What is the relationship of the researcher to that researched?	Researcher is independent from that being researched	Researcher interacts with that being researched
Axiological	What is the rule of the values?	Value-free and unbiased	Value-laden and biased
Rhetorical	What is the language of the research?	Formal based on set definitions impersonal voice use of accepted quantitative words	Informal; evolving decisions; personal voice; use of accepted qualitative words.
Methodological	What is the process of the research?	Deductive process cause and effect; static design-categories isolated before study; context-free generalisations leading to prediction, explanation and understanding accurate and reliable through validity and reliability	Inductive process; mutual simultaneous shaping of factors ; emerging design-categories identified during research process; context-bound; patterns, theories developed for understanding; accurate and reliable through verification

Source: adapted from Creswell (1994. p. 5)

[1] - Collis and Hussey (2003) outlined that some authors prefer to use different terms to refer to the two main paradigms which have arisen as a result of their wishing to denote a different approach. For instance, terms such as Quantitative, Objectivist, Scientific, Experimentalist and Traditionalist are used by some authors to refer to the Positivistic - paradigm. While, terms such as Qualitative, Subjective, Humanistic and Interpretivist are used to refer to the Phenomenological paradigm.

b) Epistemological: The epistemology assumption is concerned with the study of knowledge and what is accepted as being valid knowledge. An examination of the relationship between the researcher and that which is being researched is involved in this assumption. According to this assumption, positivists believe that only phenomena which are observable and measurable can be validly regarded as knowledge. They try to maintain an independent and objective stance. Contrary to this viewpoint, phenomenologists try to minimise the distance between the researcher and that which is being researched.

c) Axiological: This kind of assumption is considered with values. Positivists according to this assumption believe that science and the process of research is value-free. Thus, they consider that they are detached from what they are studying and regard the phenomena which are the focus of their research as objective. Positivists are interested in the interrelationship of the objects they are studying and believe that these objects were present before they took an interest in them. In addition, positivists believe that their research activities will not have any effect on the researched objects and they will still be present after the study has been done. These assumptions are common in natural sciences research but are less convincing in the social sciences that are concerned with the activities and behaviour of people (Collis and Hussey, 2003). Opposite to this viewpoint, phenomenologist considers that researchers have values, even if they have not been made explicit. These values help to determine what are recognised as facts and the interpretations that are drawn from them. Phenomenologists believe that the researcher is involved with that which is being researched.

d) Rhetorical: The rhetorical assumption is concerned with the language of the research. Positivists usually write their research in a formal style using the passive voice in order to convey the impression that the research is objective. On the other hand, in a phenomenological research the position is less clear. Phenomenologists prefer a writing stile that fully reflects the closeness of the research and demonstrates the researcher's involvement.

e) Methodological: This assumption is concerned with the process of the research. Methodology refers to the overall approach to the research, from the theoretical underpinning to the collection and analysis of data. While, methods refer to the different

means by which data could be collected and analysed with. Positivists according to this assumption are concerned with ensuring that any concepts used can be described in such a measurable way. In addition they use large samples and reduce the phenomena under examination to its simplest parts. Also they focus on what they regard as being objective facts and formulate and analyse hypotheses in order to deduct any associations or casualty. Contrary to this, phenomenologists investigate small samples, possibly over a period of time. They use a number of different research methods to obtain different perceptions of the phenomena under investigation. Phenomenologists in their analysis will be seeking to understand what is happening in a situation and looking for patterns which may be repeated in other similar situations.

It can be seen from what has been mentioned above that the positivistic and the phenomenological paradigms are two extremes and very few would undertake research within their pure forms. Adopting a particular paradigm determined partly on the nature of the investigated research problem and could be influenced by several issues such as time and funding resources. Collis and Hussey (2003) suggest that it should be remembered that there is no wrong or right paradigm. In addition, Remenyi et al (1998) suggests that a compromise sometimes has to be made between what would be ideal and what is practical.

5. 1. 1: Quantitative methodology.

A quantitative methodology is based on the positivist perspective of the world in which all phenomena can be analysed scientifically and explained through appropriate scientific analysis and has been the dominant tradition within the research community. According to this ideology of thought as Sarantakos (1998) argues, reality is independent of human consciousness, is objective, rests on order, is governed by strict natural and unchangeable laws and can be examined. In other words, reality can be defined by all members of the society in the same way because they all share the same meaning. In his descriptions of quantitative methodology, Sarantakos (1998) mentioned some of the standards that constitute the theoretical principles of the quantitative approach as follows:

- Perceives reality as a sum of measured or measurable attributes and its main

purpose is to quantify and measure social events.

- Gives more consideration to the methods used of collecting and analysing of data.
- Attempts to neutralise the researchers or to reduce or eliminate as much as possible their influence on the researched phenomena.
- Endeavours to achieve objectivity which is considered as one of the most important properties of social research.

Similarly, Robson (2002) argues that quantitative research attempts to neutralise the researcher or to reduce or eliminate his/her influence on the investigated phenomena as far as possible. According to Collis and Hussey (2003) the quantitative approach searches for the facts or causes of social phenomena, with little regard to the subjective state of the individual. Therefore, logical reasoning is applied to the research so that precision, objectivity and rigour replace hunches, experience and intuition as the means of investigating research problems. The quantitative approach depends on using research methods that provide a standardised framework in order to limit the collected data to a certain predetermined response or analysis categories (Patton, 1990).

It has been argued that the main advantages of the quantitative approaches are that they can provide wide coverage of the range of situations; they can be fast and economical especially in cases where statistics are aggregated from large samples (Easterby-Smith et al, 2006). In the same context, Johnson and Onwuegbuzie (2004, p. 19) mentioned a number of advantages that relate to the quantitative research approach. These include the following:

- Testing and validating already constructed theories about how (and to a lesser degree, why) phenomena occur.
- Testing hypotheses that are constructed before the data are collected. This can generalize research findings when the data are based on random samples of sufficient size.
- Can generalize a research finding when it has been replicated on many different populations and subpopulations.

- Useful for obtaining data that allow quantitative predictions to be made.
- The researcher may construct a situation that eliminates the confounding influence of many variables, allowing one to more credibly assess *cause-and-effect* relationships.
- Data collection using some quantitative methods is relatively quick.
- Provides precise, quantitative, numerical data.
- Data analysis is relatively less time consuming.
- It is useful for studying large numbers of people.

On the other hand, the quantitative approach has some drawbacks. For instance, Sarantakos (1998) states that some critiques have been expressed by many researchers regarding the quantitative approach such as respondents according to this approach are turned into "units" or "objectives" and are treated as such. As a result, researchers are removed from the research process, lose contact with the respondents and become alienated from the world they are supposed to study. Similar weaknesses of the quantitative research approach were outlined by Johnson and Onwuegbuzie (2004: 19). These drawbacks include the following points:

- The researcher's categories and theories that are used may not reflect local constituencies' understandings.
- The researcher may miss out on phenomena occurring because of the focus on theory or hypothesis testing rather than on theory or hypothesis generation, i. e. confirmation bias.
- Knowledge produced may be too abstract and general for direct application to specific local situations, contexts, and individuals

5. 1. 2: Qualitative methodology.

The qualitative methodology developed as a result of the criticisms of the quantitative methodology (Collis and Hussey, 2003). Contrary to the quantitative approach that considers the researchers to adopt a position outside the investigated phenomena, qualitative approach considers that researchers to take the role of actors and see the

world from their standpoint. Thus, the researcher according to the qualitative approach can become an insider and could view the subject of the research as a participant in the setting. Rudestam and Newton (2001) state that the qualitative approach is likely to be inductive rather deductive. Additionally, they mentioned that qualitative research provides large quantities of data which represent words and ideas rather than numbers and statistics. In the same vein, Higson and Blake (1993) contended that qualitative research generally seeks to understand an event or action by using people's own words.

The qualitative approach as Collis and Hussey (2003) see it, stresses the subjective aspects of human actions by concentrating on the meaning, rather than the measurement of the social phenomena. According to this ideology, social reality is dependent on the mind and there is no reality independent of the mind, thus, it can not be claimed that what is being researched is unaffected by the process of research. Lamnek (1988) cited in Sarantakos (1998) described some of the basic principles of the qualitative methodology as follows:

- It is not predetermined or prestructured by hypotheses and procedures that might limit its focus, scope or operation.
- It is embedded in a process of communication between the researcher and the respondent. There is no intention to establish independence of the researcher from the respondents or the data.
- Considers reality as it is created and is explained in interaction.
- Set to explain clearly and accurately how respondents will be approached.
- Qualitative research methods are flexible in many ways.

It has been argued that the qualitative methodology and its associated methods have some strength in their ability to look at how change develop over time, to understand people's meanings, to adjust to new issues and ideas as they provide a way of gathering data which is seen as natural rather than artificial. Johnson and Onwuegbuzie (2004: 20) commenting on the strength of the qualitative research approach mentioned the following points:

- Data are based on the participants' own categories of meaning , collected in naturalistic settings and lend themselves to exploring how and why phenomena occur
- Useful for studying a limited number of cases in depth.
- Useful for describing complex phenomena.
- Can describe, in rich detail, phenomena as they are situated and embedded in local contexts.
- The researcher identifies contextual and setting factors as they relate to the phenomenon of interest.
- Responsive to changes that occur during the conduct of a study and may shift the focus of their studies as a result.

On the other hand, qualitative research have some weaknesses such as that the process of collecting data can be a consumer of a great deal of time and resources and the difficulty of analysing and interpreting collected data besides the problem of low credibility (Easterby-Smith et al, 2006). In this vein, Johnson and Onwuegbuzie (2004: 20) contend that qualitative research has several weaknesses such as follows:

- Knowledge produced may not apply to other people or other settings.
- It is difficult to make quantitative predictions.
- It may have lower credibility.
- It generally takes more time to collect and analyse data when compared to quantitative research.
- The results are more easily influenced by the researcher's personal biases and idiosyncrasies.

5. 1. 3: Mixed research methodology.

As a result of the long-standing paradigm debate between researchers of both quantitative and qualitative methodologies, a third approach has emerged as a natural complement to these two traditional approaches (Tashakkori and Teddlie, 1998; Johnson and Onwuegbuzie, 2004). This new rapidly growing approach of research is known in

the methodological literature as the mixed methods research (Tashakkori and Teddlie, 1998; Creswell, 2003; Johnson and Onwuegbuzie, 2004; Saunders et al, 2007). Mixed methods research is an approach of knowledge that tries to consider several viewpoints, perspectives, positions that always include the standpoints of the quantitative and the qualitative research. Tashakkori and Teddlie (1998: 19) define those studies that use different approaches as:

> *"Studies that are products of the pragmatist paradigm and that combine the qualitative and quantitative approaches within different phases of the research process".*

Likewise, Johnson and Onwuegbuzie (2004: 17) define this approach as:

> *"The class of research where the researcher mixes or combines quantitative and qualitative research techniques, methods, approaches, concepts or language into a single study".*

They argued that mixed methods research is an attempt to legitimise the use of multiple approaches in answering research questions, rather than restricting or constraining the researcher's choices. In addition, they stated that many research questions and combinations of questions are best and most fully answered through mixed research solutions. Based on their analysis of different definitions to what is meant by the term mixed methods research, Johnson et al (2007: 123) come up with what they called a general definition. They state that mixed methods research is:

> *"The type of research in which a researcher or team of researchers combines elements of qualitative and quantitative research approaches (e.g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purposes of breadth and depth of understanding and corroboration".*

It has been argued that the concept of mixed methods research evolved from the pioneer work of Campbell and Fiske (1959) that used more than one quantitative method to measure psychological traits (Tashakkori and Teddlie, 1998; Creswell, 2003). They introduced the idea by which more than one method is used as part of a validation process which ensures that the explained variance is a result of the underlying phenomenon or trait and not of the method (e.g., quantitative or qualitative). The use of more than one research approach, method and technique in a single study is known as triangulation (Collis and Hussey, 2003). By using different methods to collect data from several sources and by several means, a broader and fuller picture of the phenomenon or

unit of analysis under study could be achieved (Bonoma, 1985). Several definitions have been given to the triangulation method (mixed methods research approach). For example, Denzin (1978: 291) defines triangulation as:

"The combination of methodologies in the study of the same phenomenon".

Denzin also makes a distinction between two types of triangulations: within-methods triangulation and between-methods triangulation. Denzin outlined that the former refers to the use of either multiple quantitative or multiple qualitative approaches whereas the later involves the use of both quantitative and qualitative approaches. Denzin (1978) argued that the use of more than one method by a number of researchers studying the same phenomenon should lead to greater validity and reliability than a single methodological approach. In the same vein, Morse (1991) identifies two kinds of triangulations of research: simultaneous and sequential triangulation. According to Morse, simultaneous triangulation represents the simultaneous use of qualitative and quantitative approaches in which there is limited interaction between the two sources of data during the data collection stage, but at the interpretation stage, the findings complement one another. On the other hand, sequential triangulation is used when the findings of one research are necessary for planning the next method.

Similar to Morse (1991), Johnson and Onwuegbuzie (2004) suggest that mixed methods research design can be developed from two main types: mixed-model (mixing qualitative and quantitative approaches within or across the stages of the research process) and mixed method (the inclusion of a quantitative phase and a qualitative phase in an overall research study). In the same context, Easterby-Smith et al (2006) describe four kinds of triangulation methods that could be used within social and managerial research. These triangulations include data, investigator, theory and methodological triangulation. Methodological triangulation, as they suggest, involves the use of both quantitative and qualitative methods and data to study the same phenomena within the same study or in different complementary studies.

In the same vein, Creswell (2003) identifies six research strategies that could be selected in conducting a mixed methods research. These were: sequential explanatory strategy, sequential exploratory strategy, sequential transformative strategy, concurrent triangulation strategy, concurrent nested strategy and concurrent transformative strategy.

The most familiar of the six major mixed strategies, as Creswell (2003) suggests, is the concurrent triangulation strategy. This model generally uses separate quantitative and qualitative methods as a means to offset the weaknesses inherent within one method with the strengths of the other method. In this case the quantitative and qualitative data collection is conducted in one phase of the research study. The priority would be equal between the two methods, but in practical application the priority may be given to either the quantitative or the qualitative approach. The key goal of this model is to confirm, cross-validate or corroborate findings within a single study. This mixed methods model is advantageous because it is familiar to most researchers and can result in well-validated and substantiated findings. Furthermore, the concurrent data collection results in a shorter data collection time period as compared to the other sequential approaches.

In describing the mixed methods research, Johnson and Onwuegbuzie (2004) considere that they are similar to conducting a quantitative mini-study and qualitative mini-study in one overall research study. They argued that to consider a study as a mixed-method design, its findings must be mixed or integrated at some point. In other words, a qualitative phase might be conducted to inform a quantitative phase, sequentially, or if the quantitative and qualitative phases are undertaken concurrently the findings must, at a minimum, be integrated during the interpretation of the findings. Also they recommended that in order to mix research in an effective manner, the researchers have to consider all of the related characteristics of quantitative and qualitative research methodologies. They contended that this will enable the researchers to understand the strengths and weaknesses of both approaches and this will put them in a position to mix or combine strategies.

According to several authors (Tashakkori and Teddlie, 1998; Morse, 1991; Creswell, 2003; Johnson and Onwuegbuzie, 2004; Johnson et al, 2007; Saunders et al 2007) the main purpose of this approach (mixed research approaches) is not to replace either of the quantitative nor the qualitative approaches but rather to draw from the strengths and minimise the weaknesses of both in single research studies and across studies. For example, Johnson et al, (2007) identify several reasons for conducting this kind of research. These include:

- Enhance description of the investigated phenomena and provide a fuller picture and deeper understanding.
- Validate and explicate findings from another approach and produce more comprehensive, internally consistent, and valid findings.
- Provide more elaborate understanding and greater confidence in conclusions.
- Handle threats to validity and gain a fuller and deeper understanding.
- Provide richer/more meaningful/more useful answers to research questions.

In their advocacy of using the new third methodological paradigm of research (mixed research approach), Johnson and Onwuegbuzie (2004: 21) illustrated some of the strengths and weaknesses of mixed methods research, which should be considered to aid in the decision of whether or not to use this type of research approach for a given study. These were outlined as follows:

Strengths.

- Words, pictures, and narrative can be used to add meaning to numbers.
- Can answer a broader and more complete range of research questions because the researcher is not confined to a single method or approach.
- A researcher can use the strengths of a second method to overcome the weaknesses in a first method by using both in a research study.
- Can provide stronger evidence for a conclusion through convergence and corroboration of findings.
- Can add insights and understanding that might be missed when only a single method is used.
- Can be used to increase the generalisability of the results.

Weaknesses

- Can be difficult for a single researcher to carry out both qualitative and quantitative research, especially if two or more approaches are expected to be used concurrently.

- Researcher has to learn about multiple methods and approaches and understand how to mix them appropriately.
- More expensive and time consuming.

5. 2: Data collection methods.

There are two main sources that data can be collected from; primary and secondary. Primary data refers to information collected by the researcher on the variables of interest for the specific purpose of the research. For example, focus groups, case studies, interviews, observations and questionnaires. Secondary sources refer to information that already exists. These might include books, journals, theses, company records and government and professional bodies' publications. According to Sekaran (2003) questionnaires, interviews and observations are the three main data collection methods in survey research. It has been argued that there is no single best way of collecting data; the method chosen depends on the nature of the posed research questions and the specific questions needed to be asked. In similar previous studies to this one, interviews and questionnaires were the most used methods of collecting data. Questionnaires and interviews as methods of collecting data are discussed in detail as follows:

5. 2. 1: Questionnaires.

A questionnaire is a method of collecting data in which selected groups of people are required to complete a written set of questions to find out about their attitudes, feelings and knowledge regarding particular issues. Questionnaires can be used in both quantitative and qualitative research methodologies. Collis and Hussey (2003: 173) define questionnaire as:

> *"A questionnaire is a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample".*

Similarly, Sekaran (2003: 236) defines the questionnaire as:

> *"A reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternative".*

Questionnaires are an important and efficient tool for collecting primary data when the researcher knows exactly what information is required and how to measure the variables of interest (Oppenheim, 1992). Questionnaires can be distributed by two main methods.

Personal distribution or mailed distribution. Personal distribution questionnaire can be used when the sample is situated in one location such as a place of work. The main advantages of this method are:

- All completed responses can be collected within a short period of time.
- Any doubts that the respondents might have on any question could be clarified.
- The opportunity for the researcher to introduce the research topic and to motivate the respondents to offer frank answers.
- Good response rates can be ensured.
- Less expensive and consumes less time than interviewing and it does not need as much skill to administer the questionnaire as to conduct interviews.

These advantages of the personal distribution questionnaires, however are dependent on both time and geographical location, and limit the scope and extent to which this method of distribution can be used (Walliman, 2001: Sekaran, 2003: Collis and Hussey, 2003). On the other hand, mail questionnaires are used when targeting a large sample. Envelopes containing the questionnaire, covering letter and prepaid reply envelope are usually posted to the participants of the targeted sample who can complete them at their convenience, in their homes, and at their own pace. The main advantage of mail questionnaires is that a wide geographical area can be covered in the survey. The response rates of mail questionnaires however, are typically very low. In addition, doubts that participants might have about some issues cannot be clarified.

In order to overcome some of the main disadvantages of using questionnaires as a data collecting method, many authors came up with different suggestion such as taking great care when designing the questionnaire and its contents and sending follow-up questionnaires to non-respondents to motivate them to participate in the study. Furthermore, many issues related to the procedures of designing questionnaires were addressed. These include; a) asking relevant and accurate questions: b) wording of the questions: c) type of questions, d) sequencing of the questions, and e) piloting the questionnaire.

Relevancy and accuracy: There are two basic criteria that need to be taken into account

when selecting the right questions to be included in the questionnaire survey. These are relevance and accuracy of the questions. Relevancy refers to the extent to which they address the research questions, and thus, should be included in the questionnaire. Questions accuracy refers to the reliability and validity that collected information should have (Zikmund, 1991).

Wording: Clarity of presentation of the questionnaire, especially, the wording and the extent to which the questionnaire is clear and unambiguous, can motivate and help the participants. Also, the design and layout of the questionnaires are of great importance for the achievement of a high response rate. In this vein, Berdie et al (1986) state that the appearance of the questionnaire usually determines whether it is read or discarded because once the respondent makes the effort to read it, he/she has made some psychological commitment to complete it.

Type of questions: A questionnaire survey could include two types of questions: Closed-ended or open-ended questions (Sekaran, 2003). Open-ended questions allow respondents to give their own answers in their own words in any way they choose. According to Collis and Hussey (2003) open-ended questions offer the advantages that the respondents are able to give their opinions as precisely as possible in their own words. Open-ended questions however, can be difficult to analyse. Open-ended questions are mostly used in studies that are using a qualitative methodology, especially in the exploratory stages of the research (Remenyi et al, 1998). Open-ended questions could be used in quantitative methodology research when the researcher seeks specific comments on topics that might not have been covered fully or adequately (Sekaran, 2003). On the other hand, closed-ended questions require respondents to make a choice among a set of alternatives given by the researcher such as multiple choice questions. Closed-ended questions are convenient for collecting primary data and are usually easy to analyse. They also offer the opportunity for the respondents to answer in an easy way and will reduce the likelihood of giving ambiguous answers (Moor, 2000). This type of questions is usually used in quantitative research. The main disadvantage of closed-ended questions as Remenyi et al (1998) argue is that they may introduce bias by forcing the respondent to choose from given alternatives or by making the respondent select alternatives that might not have otherwise come to mind.

Sequence: The order or sequence of the questions in the questionnaire is an important issue that has to be taken into account when designing the questionnaire. Sekaran (2003) outlined that questions should be sequenced so that the respondent is led from questions of a general nature to more specific ones and from relatively easy questions to those that are more difficult. This process facilitates the easy and smooth progress of the respondent through the items in the questionnaire. The simplicity of the questions may be seen by the respondents as a motivating factor that could encourage them to take a part in the study and complete the questionnaire.

Piloting: Once questionnaires are distributed, the researcher cannot have them back for adjustment and amendments. Thus it is very important that questionnaires have to be piloted to ensure that the questions are understood by the respondents (i.e. there is no ambiguity in the questions) and that there are no problems with the wording or measurement (Sekaran, 2003). Regarding this issue, Collis and Hussey (2003) recommende that questionnaires have to be piloted on people who are similar to the targeted sample, and therefore expected to have knowledge about the subject of the research interest in order to anticipate any problems of comprehension or other sources of confusion. In addition, piloted questionnaires give useful indications of the estimated time needed to complete them.

5. 2. 2: Interviews.

Interviews are another method of collecting primary data. An interview is a purposeful conversation in which one person asks questions, i. e. the interviewer, and another answers them, i. e. the respondent, (James and Frey, 1995). According to Collis and Hussey (2003) interviews are associated with both positivist and phenomenological methodologies and their main purpose is to find out what the selected participants in a particular research do, think or feel. Interviews could be conducted face-to-face or over the telephone with individuals or group of individuals at the same time. They could be highly formalised and structured, using standardised questions for each respondent, or they may be informal and unstructured conversations. In between, there are compromise positions. One of the typologies that are commonly used is related to the level of formality and structure, whereby interviews could be classified as one of structured, semi-structured or unstructured (Saunders et al, 2007).

Structured or standardised interviews: This kind of interviews is similar to administered questionnaires in which the researcher has a list of predetermined questions to be asked of the respondents (Sekaran 2003). In this kind of interviews, every single question will be asked of everybody in the same manner and then the answers are recorded or noted on a standardised schedule, usually with pre-coded answers. The primary aim of this sort of interviews as Easterby-Smith et al (2006) state is to gain quantitative results from a carefully targeted sample.

Semi-structured interviews: This class of interviews is non-standardised. In semi-structured interviews, although, participants to be interviewed and questions to be asked, are determined beforehand, the order and the wording of the questions can be changed and modified based upon the respondent's perceptions of what seems most appropriate. Additional questions however, may be needed to explore the research question(s) and objective(s) given the nature of events within particular organisations (Saunders et al, 2007). In this type of interview, the researcher attempts to fix and control the circumstances of the interview in order to collect data in a constant manner as far as possible (Moor, 2000). Semi-structured interviews are best used when the researcher seeks to obtain both structured information and information about beliefs and attitudes. Semi-structured interviews can be used as sole method or in combination with other methods (Robson, 2002).

Unstructured interviews: This type of interview is informal and is generally utilised to explore in depth a general area in which the researcher is interested. Therefore, this sort of interview is referred to as an in-depth interview as there is no predetermined list of questions to be dealt with through in this situation. A clear idea however, about the aspects that the researcher meant to explore should be fully understood (Oppenheim, 1997). In unstructured interviews, only broad open-ended questions would be asked and the interviewee would be given the opportunity to talk freely about events, behaviour and beliefs with regard to the topic area (Burns, 2000).

In general, interviews as methods of collecting data enjoy several advantages such as; they give an added degree of confidence to the replies, the opportunity that allows the researcher to identify non-verbal clues which are present in the inflection of the voice, facial expressions or the clothes that the interviewee is wearing, and allows the

researcher to ask more complex questions and follow-up questions (Easterby-Smith et al, 2006; Collis and Hussey, 2003).

Nevertheless, using interviews as a data collecting method is not without limitations. Interviews are likely to consume more time and resources than other methods of collecting data such as mailed questionnaires. Collis and Hussey (2003) notice that several problems associated with conducting interviews could affect most of the outcome of the interviews. These include, problems with recording the questions and answers, controlling the range of topics and, later, analysing the collected data. Furthermore, Collis and Hussey (2003) state that events which have taken place before the interview such as promotion or an increase in salary may affect the respondent's state of mind.

In an attempt to overcome most of the disadvantages that questionnaires and interviews might have especially in designing their included questions, Collis and Hussey (2003), as shown in table (5.2), suggested several rules that should be followed.

Table (5. 2): General rules for designing questions.

No	The Rule
1	Explain the purpose of interview or questionnaire to all participants
2	Keep your questions as simple as possible
3	Do not use jargon or specialist language
4	Phrase each question so that only one meaning is possible
5	Avoid vague, descriptive words such as 'large' and 'small'
6	Avoid asking negative questions as these are easy to misinterpret
7	Only ask one question at a time
8	Include relevant questions only (do not be tempted to include every question you can think of)
9	Include questions which serve as cross-checks on the answer to other questions
10	Avoid questions which require the participant to perform calculations
11	Avoid leading or value-laden questions which imply what the required answer might be
12	Avoid offensive questions or insensitive questions which could cause embarrassment
13	Avoid questions which are nothing more than a memory test
14	Keep your interview schedule or questionnaire as short as possible, but include all the questions required to cover your purposes

Source: Collis and Hussy (2003. p. 178)

5. 3: Summary:

This chapter has discussed the research methodology in general. Following the review of the two main paradigms the Positivist and the Phenomenological paradigms, description of the three dominant research approaches, i. e. the quantitative approach, the qualitative approach and the mixed research approach, were provided. This discussion included illustrating the meaning and purpose, and strengths and weaknesses of each approach. In addition, questionnaires and interviews as the main methods of collecting primary data were outlined in the second section of this chapter. Based on the research objectives and research questions, the next chapter will outline the chosen research methodology and the justification for this choice.

Chapter six:

The chosen methodology and design of the research

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6. 0: Introduction.

This chapter is devoted to discuss the methodology and the design that the current study has adopted in order to achieve its objectives and answer the research questions. It is divided into five sections. The first section deals with the aims and the questions of the research. The second section covers the chosen methodology. This included the design and the content of the questionnaire, interview development and procedures, population and sampling of the research and methods of data analysis. The third section provides the results of the reliability analysis. The fourth section outlines some of the problems that had been faced during the empirical work of this study. The final section provides a brief summary of the content of this chapter.

6. 1: The objectives of the study and the research questions.

The main aim of the current study is to provide additional empirical evidence relating to the perceptions of auditor independence by investigating and exploring the effects of audit firm size, audit firm tenure, competition, auditors' economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of (NAS) on perceptions of auditor independence held by members of EA, IFA, TBA and BLO. In addition, the study sought to explore the attitudes of the respondents about the accounting and auditing profession and its related legal, education, economic and social environments in the Libyan context. To achieve these two broad aims, a number of objectives were formulated.

1. To explore the relevant literature to auditor independence in order to understand the nature and development of auditor independence and the factors that might affect it.
2. To examine the effect of the above nine selected factors on the perceptions of auditor independence held by the four targeted groups in the Libyan context.

3. To investigate the differences of the subject groups' perception of auditor independence with respect to the effect of the above nine selected factors.
4. To measure the participants' attitudes about the auditing and accounting profession and its related environment in the Libyan context
5. To assess the reasons for such perceptions being held by the participants from the four targeted groups with regard to both the effect of the nine selected factors on auditor independence and to their attitudes about the auditing and accounting profession.

In order to fill in the gaps in the previous literature and to accomplish the objectives of the current study, the following questions were structured.

1. How do audit firm size, audit firm tenure, competition, auditors' economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of (NAS) affect perception of auditor independence held by EA, IFA, TBA and BLO?

2. Do perceptions of auditor independence differ between EA, IFA, TBA and BLO with respect to the effect of audit firm size, audit firm tenure, competition, auditors' economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of NAS)?
3. How do participants from the EA, IFA, TBA and BLO perceive the auditing and accounting profession and its related legal, professional, social, and education environments in the Libyan context?

4. Do participants' attitudes from the targeted populations (EA, IFA, TBA and BLO) differ about the accounting and auditing profession and its related environments in the Libyan context?
5. Why are such perceptions of the effects of audit firm size; audit firm tenure, competition, auditors' economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of (NAS) held by EA, IFA, TBA and BLO?

6. 2: The chosen research methodology.

The term methodology refers to the overall approach of the research process (Collis and Hussey, 2003). As outlined in the previous chapter, it has been argued in the social sciences that there are two main methodologies that can be adopted in conducting research: The qualitative approach and the quantitative approach. The qualitative approach allows great depth in the analysis of collected data, but is more subjective. On the other hand, the quantitative approach provides precision and accuracy in the statistically generated data, but the raw data on which the statistical analysis are based is open to subjectivity bias in the same way as in the qualitative produced data. Therefore, a major trade-off between qualitative and quantitative approaches is a trade-off between breadth and depth of the research (Patton, 1990). Breadth is facilitated by the quantitative approach, in that it allows measuring the reactions of a large number of subjects but at a cost to depth. The qualitative approach generates a wealth of detailed information from a small number of subjects and often produces additional knowledge.

Choosing a particular research methodology depends on which approach will help to achieve the objectives of the study and answer the concerns of the research. A number of approaches that might be applied to examine the effect of factors on perceptions of auditor independence were utilised by previous studies. Both qualitative and quantitative approaches have been used to evaluate the perceived independence of auditors. These include questionnaire surveys, structured, semi-structured and unstructured interviews, and empirical experiments. Nevertheless, as previously mentioned, each method has its advantages and disadvantages. Studies that use only one method are more vulnerable to mistakes linked to that particular method than studies that use multiple methods where different types of data provide cross-data validity checks (Robson, 2002). Walsh (2001) argues that by using more than one method researchers can explore various aspects of the same topic by looking at it from different sides or angles.

With regard to business and management research, Saunders et al (2007) argue that it is often a mixture of positivist and phenomenologist approaches. In addition, they recommended that it is quite beneficial for research to combine qualitative and quantitative approaches. The use of different research approaches, methods and

techniques in the same study is known as triangulation (Hussey and Hussey, 1997). Triangulation is defined by Saunders et al (2003: 99) as:

> *"The use of different data collection methods within one study in order to ensure that the data are telling you what you think they are telling you. For example, semi-structured group interviews may be a valuable way of triangulating data collected by other means such as a questionnaire".*

Therefore, to overcome the weaknesses of using either one of the methods alone and to obtain the most useful results, combinations of quantitative and qualitative approaches were used in this study (mixed research methodology). Self-administered questionnaires and semi-structured interviews were the main methods of collecting data. These two instruments assisted in clarifying the perceptions of the four targeted groups (EA, IFA, TBA and BLO) with respect to their perceptions of auditor independence and attitudes about the accounting and auditing profession in the Libyan context. The main advantages of questionnaires, as discussed in chapter five, are that they offer a cheap method of collecting data, avoidance of bias, ability to reach respondents who live at widely dispersed addresses or abroad, anonymity and respondents can take their own time to fill in the questionnaire and consider their responses. On the other hand, interviews often have a higher response rate, offer the opportunity to correct misunderstandings and to carry out observations and ratings while controlling for incompleteness and for answering in a sequence and interviewers can often succeed with respondents who have reading or language difficulties.

For the purpose of designing the questionnaire and the interview a focus group was conducted with nine Libyan PhD accounting students at LJMU who have a significant knowledge of accounting and auditing practices in the Libyan economic environment (some of these students used to be either partners or auditors in accounting and auditing firms in Libya). A focus group provides a guide to the matters that need to be concentrated on and the most pertinent questions to be asked in any subsequent questionnaires or interviews (Collis and Hussey, 2003). According to May (2001), a focus group is a valuable tool of investigation, which allows the researchers to explore group norms, dynamics and experience around issues and topics which they wish to investigate. The two research methods of collecting data; self-administered questionnaires and semi-structured interviews are discussed in detail as follows.

6. 2. 1: Design and contents of the questionnaire.

Questionnaires are the most commonly used method of data collection in social sciences (Sarantakos, 1998; Sekaran, 2003). The aim of using questionnaires in the current study is to collect data that would help in investigating both the effect of the nine selected factors on perceptions of auditor independence and to the attitudes about the accounting and auditing profession as held by the participants from the four targeted groups in the Libyan context. In previous similar studies, questionnaires were used as the main method of collecting data by many researchers (see, Alleyne et al, 2006; Awadallah, 2006; Abu Bakar et al, 2005; Quick and Rasmussen, 2005; Beattie et al, 1999). This section is devoted to reporting on the procedures and the steps undertaken in developing and conducting the questionnaires.

6. 2. 1. 1: Sources of the included questions.

The questions included in the questionnaire were derived from two main sources of information. Firstly, the majority of the questions were derived as a result of the extensive review of the existing accounting and auditing literature. The studies of both of Beattie, et al (1999) and Alleyne et al (2006) however, were one of the main guidance that assisted in the construction process of the questions. Secondly, the focus group that was held with some of the Libyan PhD accounting students at LJMU was another valuable source of information that helped identifying the most important factors that might effect perceptions of auditor independence in Libya.

6. 2. 1. 2: Length and wording of the questionnaire.

One of the important considerations that the researcher has to deal with is the length of the questionnaires. Therefore, it was necessary to construct a questionnaire of reasonable length. For the purposes of this study the length of the questionnaire was seven pages including the cover page (See Appendix B). Another issue that has to be fully considered is the wording of the questionnaire. The wording and tone of the questions is important in developing the questionnaire because the information and its quality largely depend upon these factors. Thus, the subsequent points of factors that are emphasised in the literature (Oppenheim, 1992; Ghauri et al., 1995; Hussey and Hussey, 1997; Kumar, 1999; Ticehurst and Veal, 2000; Sakaran, 2003; Collis and Hussey, 2003) were

considered to help in preventing the most evident problems related to questionnaire wording. These points were advised to be adopted in order to:

1. Prevent jargon and technical terms as much as possible.
2. Make questions as short as possible since the shorter the question the less confusing and ambiguous it would be.
3. Avoid double-barrelled questions which ask more than one thing at a time and which can also be seen as confusing and ambiguous.
4. Avoid phrasing questions in such a way that they may lead the respondent to give the responses that the researcher would like to, or may come across as wanting to be elicited.
5. On some issues, respondents may have not any opinion or do not know. Therefore, respondents were offered the options of answering 'Neither' and 'Neutral'.

6. 2. 1. 3: Type of questions.

For ease of use and to save respondents time in completing the questionnaires, as well as achieving uniformity among respondents' answers, closed or fixed alternative forms of questions were adopted in this study. According to Collis and Hussey (2003) closed form questions are convenient for collecting data in a questionnaire survey and are usually easy to answer and analyse, since the range of potential answers is limited. This viewpoint was shared by Easterby-Smith et al (2006) who mentioned that the strength of closed questions is that they are quick to complete and analyse. In addition, some definitions of the concepts that were used in the questionnaire such as independence, competition, audit committee, non-audit services, low balling, audit firm tenure and audit firm size were provided to the respondents in order to clarify any misunderstanding regarding the meaning of such concepts.

6. 2. 1. 4: Scaling of the questions.

There are four different types of scales; nominal, ordinal, interval, and ratio (Sekaran, 2003). For the purposes of the current study, two kinds of scales were used; the nominal scale and ordinal scale. With nominal scales, the researcher can assign subjects to certain

categories or groups such as gender, age, occupation or experience. Ordinal scales are used when respondents are asked for responses in the form of rank. In the first part of the questionnaire, the nominal scale was used to collect data on the background information about the participants. They were asked to tick a particular classification or characteristic such as gender, age, level of education and other data that were deemed to be relevant for the purpose of this study. In the second and third part of the questionnaire, a five-point Likert scale was used to measure the respondents' perceptions and attitudes regarding the identified auditor-client relationships and the accounting and auditing profession related issues. Collis and Hussey (2003) mentione that the Likert scale is one of the most frequently used types of scales. The Likert scale according to them turns the questions into a statement and asks the participants to indicate their level of agreement with the statement. In the second part of the questionnaire, the Likert scale was designed to measure the extent to which the participants believe that each statement might undermine or enhance auditor independence. The scale of perception ranged from seriously undermines independence to strongly enhance independence. Another five point scale is used in the third part to measure attitudes of the respondents regarding different issues related to the accounting and auditing profession. The scale of measuring participants' attitudes ranged from (strongly disagree) to (strongly agree).

6. 2. 1. 5: Content of the questionnaire.

The questionnaire was divided into four main sections (see Appendix B) and each section included several questions or statements as described below.

Section one: Participants in this section were asked to provide some information about their background by answering some personal questions using nominal scales. This information included the following:

- Gender: Respondents were asked to indicate whether they were male or female.
- Age: Respondents were asked to indicate the age group to which they belong. Four age groups were provided and ranged from (29 years or less) to (50 years or over).

- Occupation: Participants were requested to indicate their occupation. Occupation was classified as: external auditors, auditors from the Institute of Financial Auditing, auditors from the Taxation Board and bank loan officers.
- Level of education: Respondents were asked to indicate their highest level of education. This included First University Degree, Masters' degree, PhD and other levels of education.
- Subject of study: Respondents were requested to indicate their subject of study's specialisation. This was classified as: Accounting, Administration, Economic and others.
- Working experience: Participants were requested to indicate the working experience group to which they belong. Four working experience groups were provided and ranged from (less than 5 years) to (15 years or over).

Section two: This section was constructed in the form of different statements followed by a five-point Likert scale and designed to measure participants' perceptions regarding the effect of the nine selected factors on auditor independence. 31 auditor-client situations were included in this section describing different relationships that might occur between auditors and their audit clients. Respondents were asked to express their opinion of the perceived effect of these statements on the auditor independence by selecting one of the five point Likert scale that ranged from (seriously undermines independence) to (seriously enhances independence). This section was organised to include nine main headings in such a way that describes the auditor-client relationships that could be addressed with respect to the selected factors as follows:

- Size of the audit firm: Four different statements describing the size of the audit firm were included under this heading (statement No. 2-1 to 2-4). These include being a sole practitioner, small, medium and large audit firm.
- Audit firm tenure: To investigate the perceived effect of audit firm tenure on auditor independence, four auditor-client relationships were set under this heading (statement No. 2-5 to 2-9). These include, where an audit firm has been auditing the client for less than 2 years, 2 to less than 5 years, 5 to less than 10 years, and 10 years and over.

- Competition among audit firms: Under this heading, four auditor-client relationships were set to measure the participants' perceived effect of competition between audit firms on auditor independence (statement No. 2-10 to 2-14). These include, when there is a high level of competition, little competition, audit fee discounting and low-balling and budget pressures imposed by an audit firm on staff.

- Auditors' economic dependence on their audit clients: The perceived effect of an auditors' economic dependence on their audit clients on auditor independence was sought to be examined in three auditor-client relationships (statement No. 2-15 to 2-17). These include, when an audit firm's profitability depends on the retention of a specific audit client, greater than 10% of total firm's audit fees revenues are from one client, and when an audit firm's desire is not to lose status by losing a key client.

- Audit committee: An attempt to measure views on auditor independence with respect to the effect of an audit committee in two different situations (statement No. 2-18 & 2-19). These include existence of an audit committee and the lake of an audit committee in the audit client's company.

- Status and financial condition of the audit client: Four auditor-client relationships were set to measure the participants' view of the effect of the status and financial condition of the audit client on auditor independence (statement No. 2-20 to 2-22). These include, when the audit client is in the state sector, is in the private sector, is in a strong financial condition and is in a weak financial condition.

- Personal relationships: Participants' perception of auditor independence was measured with respect to the effect of personal relationships between auditors and their audit clients in three different situations (statement No. 2-23 to 2-25). These include, when an audit client's financial director was previously employed by the audit firm, one of the audit client's executive directors is a close friend of one of the audit team, and when one of the audit client's executive directors is a brother of one of the audit team.

- Financial relationships: In order to examine the perceived effect of the financial relationships between auditors and their audit clients on auditor independence,

three auditor-client relationships were set (statement No. 2-26 to 2-28). These include, unpaid audit and non-audit fees from the previous years, a partner or a member of the audit staff of an audit firm owns material shares in the audit client, and an auditor in an audit firm has received an interest free loan from an audit client.

- Provision of non-audit services (NAS): Participants' perception of auditor independence was sought to be measured with respect to the effect of the provision of NAS by audit firms to their audit clients in four different situations (statement No. 2-29 to 2-31). These include, when the audit firm does not provide any kind of NAS to its audit clients or when the fees from non-audit services are 25% to 49 %, 50 % to 99 % and 100 % or more of the audit fees.

Section three: This section of the questionnaire attempted to measure the attitudes of the participants on the auditing and accounting profession and its related environments in the Libyan context. Respondents in this section were asked to indicate their agreement or disagreement with eight different statements that describe several aspects and issues pertinent to the legal, profession, social, and education systems in Libya by using a five point scale ranged from (strongly disagree) to (strongly agree).

- Statement No. 3-1: This statement is concerned with measuring if the Libyan rules and regulations include any comprehensive provisions that could enhance and maintain auditor independence.
- Statement No. 3-2: The aim of this statement is to test whether the Libyan audit firms adhere to the independence requirements when performing their auditing tasks.
- Statement No. 3-3: This statement was devoted to investigate whether the Libyan Accounting and Auditing Association (LAAA) is playing an important role in maintaining auditor independence.
- Statement No. 3-4: This statement is set to test whether the (LAAA) is properly doing its duty in developing the profession of accounting and auditing.

- Statement No. 3-5: This statement is concerned with measuring whether the accounting and auditing profession is efficiently fulfilling its role in meeting the demands of its clients.
- Statement No. 3-6: The sufficiency of the Libyan accounting and auditing curriculum to train auditors is sought to be investigated in this statement.
- Statement No. 3-7: This statement is set to test whether the accounting and auditing profession, in general, and auditors in particular are enjoying reasonable respect and status in Libyan society.
- Statement No. 3-8: Finally, this statement is intended to investigate the participants' opinions about the importance of the auditor independence in effectively and correctly completing the audit process of the audit clients' financial statements.

Section four: In this section, the opportunity was given to the respondents to comment on the subject of the study and on the questionnaire, i. e. wording, layout, ambiguity and length. In addition, the respondents were asked to mention and to comment on any issues they think are important and related to the subject of the study which had not been mentioned in the questionnaire. Furthermore, participants were offered a copy of the results of the study, when ready, if they wanted one.

6. 2. 1. 6: Piloting the questionnaire.

The final step in the design process of the questionnaire and the most important one is the piloting stage. Borg and Gall (1989) mention that the main advantage that might be gained by piloting the questionnaire, is the feedback from the participants in the pilot study with respect to the subject investigated that might be used in improving the main study. Therefore, a few steps in this context were taken to check the questionnaire phrases, clarity, length, layout together with the relevance of the questions. The piloting process of the questionnaire was done through two stages.

The first stage of the pilot study.

This was conducted in the UK at Liverpool John Moores University and consisted of the following steps:

Firstly, the researcher played the role of the respondent and answered his own questions. Secondly, Libyan and other PhD accounting students at LJMU were given copies of the questionnaire and asked for their comments. Thirdly, other copies were given to the supervisory team for their comment and advice. Based on the feedback from these individuals, several modifications were made to the wording of some questions, some less relevant questions were deleted, and some of the questions were clarified.

Because most of the previous studies on perceptions of external auditor independence were in the English language (see Appendix A), the questionnaire was originally written in English and then translated into Arabic. The translation process needed some additional care in order to prevent and avoid any mistranslation of the words and expressions and concepts that were used in the construction of the questions. Regarding this issue, a number of steps were considered to construct the Arabic version. These include the following points:

1. The questionnaire was firstly translated by the researcher and then discussed in detail, either while being translated or during the pilot study with postgraduate colleagues and those involved in the pilot study whose native language is Arabic;
2. The Arabic copy along with its English version was given to an expert translator for comments and amendments if necessary.

After considering all the necessary procedures that might ensure an appropriate translation, the researcher was satisfied with the accuracy of the Arabic translated version (see Appendix D).

The second stage of the pilot study.

This was conducted in Libya during the period from the first of July 2007 to the end of August 2007. The Arabic version of the questionnaires was personally distributed to the main four targeted groups. These included 20 members of external auditors, 13 members of Taxation Board auditors, 12 members of bank loan officers and 17 auditors from the Institute of Financial Auditing (for more details, see section 6. 2. 3). Out of the 62 personally distributed questionnaires, 50 usable questionnaires were received making an overall response rate of 80%.

In addition to completing all of the questions included in the questionnaire, the participants in the pilot study were asked to provide their comments and suggestions regarding the questionnaire's clarity, answering options, layout and length. In general, the main concluded points were as follows:

1. There were no complaints about the length of the questionnaire and the clarity and layout of the questions, and the use of the 5 point Likert scale.
2. The average time the participants took to complete the questionnaire was 25 minutes.
3. Most of the participants were interested in the study and acknowledged its importance.

The collected data from the pilot study were analysed using SPSS computer program in order to answer the research questions. The main statistical techniques that were used for this purpose were the descriptive statistics (standard deviation, mean, percentage) and parametric test technique, i. e. the one-way analysis of variance (ANOVA), (for more details, see section 6. 2. 4). The main findings of this pilot study were successfully used in the transfer report process from the MPhil stage to the PhD stage.

6. 2. 2: Interview development and procedures.

The second stage of the empirical work seeks to gain more in-depth understanding of the perceptions of the selected factors on auditor independence in addition to the attitudes about the accounting and auditing profession held by the subject groups in the Libyan context. Therefore, it was decided to conduct some interviews with different members of the targeted groups (EA, IFA, TBA and BLO). In some similar previous studies, interviews were chosen as methods of collecting data (Hudaib, 2003; Kilcommins, 1997)

As mentioned in the previous chapter, there are three types of interviews that can be used to collect data in research; structured, semi-structured and unstructured interviews. In this study, semi-structured interviews were conducted with some selected members of the targeted groups. It has been argued that a semi-structured interview is generally used in social research since its objective is to obtain explanation and gain more understanding of particular research phenomena. Semi-structured interviews were

chosen for the current study because they allow space for discussion and encourage participants to raise and elaborate on important related issues. In addition, a semi-structured interview was described by Cohen and Manion (1980) to be friendlier and less intimidating.

In semi-structured interviews, the researcher can change and modify the questions or the wording of them according to the respondents' perceptions of what seems most appropriate. Also, other questions could be asked to explore the research questions and objectives (Saunders et al, 2007). Another advantage of using semi-structured interviews is that since members of the targeted groups differ in many aspects (e.g. accounting background, level of education, age, experience etc), and using formal structured interviews will necessarily generate the difficulty of a lack of shared knowledge towards the same set of questions.

In order to collect the necessary data for the current study, an interview guide was prepared (see Appendix C). The interview guide lists the questions and issues that need to be discussed during the interview process with the participants of the targeted populations. Intended questions were based on research questions and similar to those used in the self administered questionnaire with the aim to clarify and seek further opinions on related issues. Patton (2002) indicates that the interview guide can be developed in more or less detail, depending on the extent to which the interviewer is able to specify important issues in advance and on how important it is to put questions in the same order to all respondents.

The questions of the interview guide were initially prepared in English and then translated into Arabic. Similar procedures to those used in preparing of the questions of the questionnaire were followed in the preparation and designing of the questions of the interview guide. These include wording and relevance and clarity of the questions. Based on the feedback from the supervisory team and the PhD accounting students at LJMU, several amendments were made to a number of questions. In order to ascertain the validity and reliability and to ensure the appropriateness and relevance of the interview's questions, the Arabic version of the interview guide (see Appendix E) was piloted in Libya by interviewing a number of individuals from the targeted groups with whom the actual study was to be conducted. The pilot study of the interview was

conducted in the period from the first of July 2007 to the end of August 2007. This pilot testing stage of the interview was conducted in the same manner as it would be performed in the actual study. Seven semi-structured interviews were conducted with randomly selected members of the targeted groups.

Each interview on average lasted between 45 minutes to 2 hours, and most of the interviewees agreed to have the interview recorded except for one interviewee, where efforts were made to write down the points covered in the interview. At the beginning of each interview and before embarking on the collection of data, the researcher first introduced himself and thanked the respondent for agreeing to take part in the interview, then, the purpose of the interview and the objectives of the study were briefly outlined and the importance of the interviewee's opinions was stressed. In addition, all interviewees were guaranteed confidentiality at the outset of the fieldwork and promised that they would not be individually identified in the study. The main purpose of offering anonymity was to obtain open and unguarded responses to the questions that were asked during the interview. Furthermore, each interviewee was given the opportunity to receive a brief report of the study when ready.

All the interviews were conducted at the participants' place of work and, as far as possible, in the same manner. This was to ensure that the same questions were asked and that each interviewee would understand the questions in the same way. Moreover, supplementary questions were asked, especially, when initial responses needed to be further elaborated or new issues emerged during the interview. All the recorded tapes were transcribed and combined with the notes taken and were organised in such a way as to simplify the analysis process.

Overall, most of the interviewees expressed their interest in the study and believed that most of the questions were relevant and covered most of the issues related to the subject of the research. The collected data from the interview pilot study were analysed using content analysis technique in order to answer the research questions. (For more details, see section 6. 2. 4). Similar to the findings of the questionnaire pilot study, the main findings of the interview pilot study were successfully used in the transfer report process from the MPhil stage to the PhD stage.

6. 2. 3: The Population and Sampling of the Research.

Choosing the research participants is one of the most important issues that determine the quality of the produced data. Therefore, it is highly recommended by Denscombe (2001) that researchers have to choose the right population to participate in research studies. According to Sekaran (2003: 265) population refers to:

"The entire group of people, events or things of interest that the researcher wishes to investigate".

6. 2. 3. 1: The identified population.

The populations identified for this study comprised of four Libyan groups; EA, IFA, TBA and BLO. The main reason for choosing these particular groups were based on previous research that has identified them as the most relevant groups on the issue of auditor independence (see Appendix A). Thus, these groups' perceptions of auditor independence are worthy of study. In addition, these four groups include professionally qualified and trained individuals who are capable of making informed judgements about the subject of this study. The justification for targeting these groups is as follows.

External auditors, who are members of the Libyan Accountants and Auditors Association (LAAA), are legally allowed to practise accounting and auditing. As the main objective of the current study is to examine the effect of certain factors on perceptions of auditor independence, it was very important to see how external auditors perceive themselves with respect to each of the selected factors. The LAAA has, approximately, 1500 members who are external auditors. According to the LAAA officials, the approximate number of external auditors who practise auditing during the period of conducting this study is about 1,000. This is due to different reasons such as retirement, death, stopping practising accounting and auditing and some of them being outside Libya for several reasons.

Auditors from the Institute of Financial Auditing, who are members of the Institute of Financial Auditing (IFA), are employed by the government to audit the financial statements of its corporations. Because of the huge work that these auditors have to accomplish before the end of every financial year, the IFA contracts with external auditors to audit some of the financial statements of the State owned companies. Thus, it

is very important to know how auditors from this Institute perceive the independence of the external auditors. The number of auditors who work for the IFA according to its registers is about 400.

Taxation Board auditors, are legally allowed to review the audited financial statements of companies to determine the exact amount of tax that should be collected. They rely on the audit report to aid them in estimating income tax as part of the governments' source of revenues. These auditors are interested in external auditor's independence and prefer external auditors to avoid circumstances where their independence might be impaired. It is important, therefore to find out how this group of financial statement users perceive auditor independence. According to the registers of the Taxation Board, it has about 250.

Bank loan officers, are chosen because they were regarded as relatively sophisticated financial statement users who would understand the importance of independent audit action (Knapp, 1985). They also represent the lenders' or creditors' point of view, as one of the major users of financial statements. Bank loan officers depend heavily on the audit report that conveys the financial condition and performance of the company when making lending decisions. Therefore, it is very important to know how this group of financial statement users perceive the auditor independence with regard to the effect of each selected factor. Sixteen Libyan state and private banks operating in Libya under the supervision of the Central Bank of Libya were used to select the sample of the bank loan officers of this study[1].

6. 2. 3. 2: The sampling process.

Having defined the populations intended for this study, a number of subjects[2] have to be selected which can be seen as representative of that population. This process is known as sampling. Sekaran (2003: 266) defines sampling as:

> *"The process of selecting a sufficient number of elements from the population, so that a study of the sample and an understanding of its properties or characteristics would make it possible for us to generalise such properties or characteristics to the population elements".*

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[1]- Headquarters of these banks and its main branches in the largest cities in Libya were chosen to select the subjects that made the sample of the bank loan officers of this study

[2] - A subject is a single member of the sample, whereas an element is a single member of the population.

The main reasons for using samples rather than collecting data from entire populations are that it is less prohibitive in terms of time, cost and other resources especially when a large number of elements are involved and sometimes in different geographical areas. Although there are different types of sampling techniques, it is important to select the right sample. Relating to this issue (Collis and Hussey, 2003) recommend that a representative or good sample is one in which the results obtained for the sample taken to be true for the whole population. In addition, they stated that a good sample must be:

- Chosen at random (every member of the population must have a chance of being chosen).
- Large enough to satisfy the needs of the investigation being undertaken.
- Unbiased.

According to Sekaran (2003) there are two major kinds of sampling designs: Probability sampling where every element in the population has a known and equal chance of being selected as a subject, and non-probability sampling where elements do not have a known or predetermined chance of being selected as a subject. For the purposes of this study, probability sampling was employed to select subjects from the targeted groups. By using a simple random sampling method, each person in the targeted population has an equal probability of being chosen for the sample and the selection of one particular element has no effect on the selection of the others. In addition, in this method of sampling, non-replacement sampling is used in order to avoid the possibility of choosing a particular element more than once. The rationale for using this kind of technique is to: a) offer the most generalisability or the most representative sample; and b) to minimise bias and enable the estimates of sampling errors to be made (Sekaran, 2003). Because most of the economic, financial and commercial activities in Libya are conducted and performed in the major cities such as Tripoli (the capital city of Libya), Benghazi, Ez-Zawia and Gharian (Khorwatt, 2006; Mahmud, 1997), the sampling process of selecting subjects from the four targeted groups was confined to these main cities. This was due to the following issues:

- More than 90 per cent of the audit firms are located in these cities.
- Most of the economic and business activities are held in these cities.

- The headquarters and their main branches of the commercial and state banks, the Institute of Financial Auditing and the Taxation Board are located in these cities.

Regarding sample size, Saunders et al (2007) state that a sample size of 30 or more will usually result in a sampling distribution for the mean that is very close to a normal distribution. In addition, they outlined that samples of larger absolute size are more likely to be representative of the population from which they are drawn than smaller samples and, in particular, the mean calculated for the sample is more likely to equal the mean for the population. On the contrary, Cohen and Manion (1980) consider that there is no exact number or percentage that can be universally prescribed to be adopted in all studies. Some authors however, suggested that there are considerations to be borne in mind when deciding the size of the selected sample such as the kind of statistical analysis that is planned, the expected variability within the samples and the results, based on experience, the traditions in the particular research area regarding appropriate sample size, the size of the entire population and time and cost (Sekaran, 2003; Collis and Hussey 2003; Remeryi et al, 1998; Easterby-Smith, 2006; Saunders et al, 2007).

After considering the above notes about selecting the right size of the sample to whom the questionnaires would be distributed, the sample sizes of each targeted population in the current study were as follows; 300 subjects from the EA group, 200 subjects from the IFA group, 125 subjects from the TBA group and 100 subjects from the BLO group.

6. 2. 4: Questionnaire distribution and collection.

Because the survey was confined to some specific locations (the main cities in Libya), personally distributed and collected questionnaires method was adopted in the current research. The main advantages of this method as Sekaran (2003) mentions are:

- The researcher or a member of the research team can collect all the completed responses within a short period of time.
- Any doubts that the respondents might have on any question could be clarified on the spot.
- The researcher is afforded the opportunity to introduce the research topic and motivate the respondents to offer frank answers.

- Administering questionnaires to a large number of individuals, is less expensive and consumes less time than interviewing.
- It does not require as much skill to administer the questionnaire as to conduct interviews.

The distribution and collection process of the questionnaires were conducted with the assistance of the Institution of Financial Auditing and its branches, the state and private banks and their branches, the Taxation Board and its branches, the LAAA and its branches and accounting and audit firms. The distribution and collection process was conducted in Libya over a period of three months from first of July to the end of September 2008 and planned as follows:

The handing over visits: The questionnaires with the attached covering letters were personally delivered to the coordinators[1] or directly to the selected subjects from the four targeted groups.

The follow-up visits: Several follow-up visits were made to assisting participants of this study in completing the questionnaires, firstly, they serve as a friendly reminder and to ask the participants to complete the questionnaires as soon as possible secondly, they allowed for the collection of completed questionnaires and for the expression of appreciation to the coordinators and respondents.

The collecting visits: Other visits were made in order to collect completed questionnaires from coordinators and thank them and to ask them to inform non-respondents that ten days later would be the final days for collecting the completed questionnaire;

The final visit. A final visit was made to collect the remaining completed questionnaires.

Based on the above procedures, 410 usable questionnaires out of the 725 personally distributed questionnaires were collected making a response rate of 56.55%.

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[1] - Managers of personal departments of the four targeted organisations (the Institution of Financial Auditing and its branches, the state and private banks and their branches, the Taxation Board and its branches and the LAAA and its branches) were chosen to be the coordinators for distributing and collecting questionnaires.

A summary of the number of the distributed and collected questionnaires for each group of the targeted population is illustrated in table (6. 1). From the researcher's point of view, the response rate was reasonably good compared to other surveys (see Appendix A for more details). In addition, a great deal of interest was expressed in the research. Approximately 80% of the respondents requested a summary of the results.

Table (6. 1): Summary of the number of the distributed and collected questionnaires for each group.

Description	EA	IFA	TBA	BLO	Total
Distributed questionnaires	300	200	125	100	725
Usable collected questionnaires	148	103	85	74	410
Percentage	49 %	51 %	70 %	74 %	56.55%

EA= External auditors; **IFA**= Auditors from the Institute of Financial Auditing; **TBA**= Auditors from the Taxation Board and **BLO**= Bank Loan Officers.

6. 2. 5: The semi-structured interviews of this study.

The personally distributed questionnaires would provide a great deal of quantitative data, but as previously indicated there are considerable benefits to be gained from mixing quantitative and qualitative information. Therefore, the second stage in the current study of collecting data was through conducting some semi-structured interviews with selected members of the targeted populations. As mentioned earlier, semi-structured interviews can be the best tool in cases where the researcher needs to collect both structured information and information about attitudes or beliefs of the participants (Moore, 2000).

The interview process was designed to enhance and supplement the information gained from the second and third sections of the questionnaire. 20 semi-structured interviews were conducted with randomly selected members of the four targeted groups. This included 6 members of the EA group, 6 members of the IFA group, 4 members of the TBA group and 4 members of the BLO group. The semi-structured interviews were conducted in Libya over a period of three months from first of July to the end of September 2008. Table (6. 2) shows the breakdown of the participants from each group.

Similar procedures and steps to those used in the pilot stage of the interview guide were followed when conducting the final semi-structured interviews. For more details see section (6. 2. 2).

Table (6. 2): Samples selected from each group for semi-structured interviews.

Int. No	Population group	Position	Working experience	Date
1	EA	Senior auditor	9 years	02/07/2008
2	EA	Partner	25 years	07/07/2008
3	EA	Partner	24 years	16/09/2008
4	EA	Senior auditor	8 years	14/08/2008
5	EA	Partner	9 years	20/08/2008
6	EA	Partner	17 years	08/09/2008
7	IFA	Manager of the companies auditing department	12 years	23/09/2008
8	IFA	Manager of the companies auditing department	21 years	28/07/2008
9	IFA	Manager of the companies auditing department	13 years	06/08/2008
10	IFA	Manager of the companies auditing department	8 years	10/09/2008
11	IFA	Manager of the companies auditing department	18 years	13/07/2008
12	IFA	Manager of the companies auditing department	22 years	17/07/2008
13	TBA	Manager of the companies taxation department	10 years	05/08/2008
14	TBA	Manager of the companies taxation department	14 years	20/08/2008
15	TBA	Manager of the companies taxation department	13 years	02/09/2008
16	TBA	Manager of the companies taxation department	21 years	15/07/2008
17	BLO	Manager of the credit department	15 years	28/07/2008
18	BLO	Manager of the credit department	27 years	14/08/2008
19	BLO	Manager of the credit department	24 Years	15/09/2008
20	BLO	Manager of the credit department	25 Years	28/09/2008
Total	20 Semi-structured interviews			

EA= External auditors; **IFAA**= Auditors from the Institute of Financial Auditing; **TBA**= Auditors from the Taxation Board and **BLO**= Bank Loan Officers.

6. 2. 6: Methods of data analysis.

In general, there are many statistical techniques and methods of analysing quantitative and qualitative data. For the purposes of achieving the objectives and answering the questions of the current research, several techniques were adopted. These include Cronbach's Alpha, Descriptive statistics technique, parametric test technique, i. e. the one-way analysis of variance (ANOVA), multiple comparisons test (Duncan test) and content analysis technique.

Cronbach's Alpha Coefficient: in order to find out whether the internal consistency of the selected scales for the current study is reliable, Cronbach's Alpha Coefficient was used. Pallant (2007) states that Cronbach's Alpha Coefficient is one of the most commonly used indicators of internal consistency.

Descriptive techniques: With regard to the use of the descriptive techniques, Pallant (2007) states that descriptive statistics (e.g. mean, median, standard deviation, etc) have different uses such as to describe the characteristics of the participants of the study, to check the variables for any violation of the assumptions underlying the statistical techniques that will be used to address the research questions, and to address any specific research questions. Therefore, descriptive statistics were used in this study to describe the characteristics of the participants of the study and to assist in answering the questions of the research.

Parametric technique: A parametric test is a statistical technique measuring the distribution (e.g. mean and variance) of the population from which the research sample is drawn. Parametric statistics are more powerful than non-parametric statistics because they have more stringent assumptions in order to characterise the population parameter (Bryman and Cramer, 2002). As the second and third part of the questionnaire aimed to examine the effect of the selected factors on the perceptions of auditor independence and the attitudes about the accounting and auditing profession held by the four targeted groups, the parametric technique was applied in this research. The one way (ANOVA) was used in order to answer research question number two and four. More specifically, it was employed to examine whether the mean scores of the four groups according to their occupations significantly differ from each other with regard to their perceptions of auditor independence and to measure the differences of their attitudes regarding several issues related to the accounting and auditing profession environments. One-way analysis of variance (ANOVA) is used when there are two or more groups whose mean scores on a continuous variable needed to be compared (Sakaran, 2003). According to Pallant (2007) there are some key assumptions that need to be met if the decision was to use one of the parametric techniques such as one-way ANOVA. These assumptions, which the current study is compatible with include:

- The dependent variable is measured by using a continuous scale such as a five-point Likert scale
- The use of a randomly selected sample from the targeted population.

- The independence of the observations that make up the collected data. Each observation or measurement must not be influenced by any other observation or measurement.
- The population which samples are selected from must be normally distributed[1].

Multiple comparisons test: Although the one-way analysis of variance (ANOVA) test may indicate that there are differences among the respondents' opinions, it does not show exactly which of the groups differ if there were any significant differences (p value < 0.05). Accordingly, an additional multiple comparisons test is needed to be conducted in order to obtain more insights into which groups differ from which. There are a number of different post-hoc tests that can be used, and these vary in terms of their nature and strictness. One of the most commonly used post-hoc tests that was used in the current study is the Duncan test.

Content analysis technique: For the purpose of answering research question number five that aims to gain more insight to the perceptions of auditor independence held by the subject groups and their attitudes about the accounting and auditing profession, a content analysis technique was used to analyse data that were collected from the semi-structured interviews with some members of the targeted population groups. Content analysis is a research tool that researchers use to determine the presence of certain words or concepts within a particular analysed material such as books, essays, interviews, discussions or any similar materials that they may use to quantify and analyse to make inferences about the messages within these materials. In particular, this technique was chosen to be used rather than NVIVO technique because the size of the chosen samples of each group was respectively small and the collected qualitative data was manageable to be analyses by the content analyses technique.

Collis and Hussey (2003) describe content analysis as a formal approach to qualitative data analysis that is usually associated with a positivistic approach where analysed material is classified into different coding units which are normally preconstructed by the researcher. Content analysis was defined by Patton (1990, p. 38) as:

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[1]- Pallant (2007) believed that most of the parametric techniques are reasonably robust or tolerant of violations of this assumption. With large size of samples (e.g. 30 +), the violation of this assumption should not cause any major problems.

"The process of identifying, coding and categorising the primary patterns in the data".

In the current study, the collected qualitative data was analysed based on the cross-interview approach suggested by Patton (1990). The first step in this process involved joining together answers from the transcripts of the interviews held by topic per the interview guide and allowing the guide to act as a descriptive framework for the analysis. As answers were grouped by topic, they were analysed using the content analysis which included identifying, coding and categorising the primary patterns in the collected data.

6. 3: Reliability analysis.

One of the first important steps that the researcher has to do in order to gain a good quality control of conducting research relying on primary sources of data such as a questionnaire is the reliability analysis. Reliability analysis allows studying the properties of measurement scales and the items that make them up. According to Collis and Hussey (2003) reliability is concerned with the results of the research. Sakaran (2003: 203) states that:

> *"The reliability of a measure indicates the extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instrument".*

In other words, reliability refers to the likelihood to produce the same results if the research is replicated by another researcher following the same procedures. The reliability analysis procedures calculate a number of commonly used measures of scale reliability and also provide information about the relationships between individual items in the scale. By using reliability analysis, items that might create problems could be identified and excluded. In this study, Cronbach's Alpha was used due to its relevance to analyse questionnaires based on five-point Likert scale and measures the internal consistency of the questionnaire based on the average inter-item correlation of the items.

Table (6.4) below provides the reliability analysis result of the items that were included in the questionnaire. As can be seen the Cronbach's Alpha Coefficient is 0.724. Sekaran (2003) mentioned that the closer the reliability coefficient gets to 1.0 the better. In addition, he stated that those reliabilities less than 0.60 are considered to be poor while those in the range of 0.70 are acceptable. In the same vein, Pallant (2007) states that the

ideal Cronbach's Alpha Coefficient of a scale should be above 0.7. Thus, the internal consistency reliability of the measures used in the current study can be considered to be acceptable.

Table (6. 3): Reliability analysis

Cronbach's Alpha	Number of items
0.724	**45**

6. 4: Data collection problems.

During the process of collecting both quantitative and qualitative data, the researcher had faced some problems that might be worth mentioning. **Firstly**, the list of the external auditors' names, addresses and phone numbers that was issued by the LAAA was not accurate. This was due to that a number of auditors changed their addresses and their phone numbers without notifying the LAAA. Therefore, the researcher had to make extended efforts to find their new addresses which resulted in wasting a lot of time. **Secondly,** collecting personally the distributed questionnaires needed a lot of follow-up visits. This was due to different reasons such as the absence of some of the participants, there were no specific working time especially for the external auditors group and the existence of some of the participants in other places and cities conducting their tasks. **Thirdly,** a lot of travel had to be undertaken in order to contact the participants of the study due to the long distances that separates the locations of the targeted cities.

Despite these problems every effort was made to contact most of the subjects of the samples from the four targeted population. In addition, most of the participants of the study were cooperative and helpful and there were no complaints from them about the current study regarding its length or the clarity in the questions of the questionnaire and the interview.

6. 5: Summary.

This chapter has outlined the chosen research methodology and the justification behind that. To provide research evidence on perceptions of external auditor independence and attitudes about the accounting and auditing profession in the Libyan context, this research employs both quantitative and qualitative methods (mixed methods research) to

enrich the research findings and to gain advantage from data triangulation. Personally distributed and collected questionnaires used in this research to measure perceptions of participants from the four targeted groups with regard to the effect of the nine selected factors on auditor independence and their attitudes about the accounting and auditing profession in the Libyan context. 300 external auditors, 200 auditors from the Institute of Financial Auditing, 125 Taxation's Board auditors and 100 bank loan officers were randomly selected to participate in this study. To gain more in-depth understanding of perceptions and attitudes that held by the subject groups in the Libyan context with regard to the subject of this study and to confirm and clarify the findings derived from the questionnaire survey, 20 semi-structured interviews were conducted with randomly selected subjects of the targeted populations. In order to produce the findings from the quantitative and qualitative data, the use of suitable analysis techniques was adopted. This included a number of techniques such as Cronbach's Alpha Coefficient, descriptive statistics, parametric tests (the one-way analysis of variance (ANOVA), multiple comparisons test (Duncan test) and content analysis technique.

The following two chapters present the findings based on questionnaire survey and semi-structured interviews conducted with the selected samples of the targeted population.

Chapter seven:

Findings of the questionnaire

Chapter seven:

Findings of the questionnaire

7. 0: Introduction.

This chapter is intended to present the results of the quantitative data which were collected by the questionnaires. It examines and discusses the participants' perceptions relating to the effect of the nine selected factors, identified in chapter four, on auditor independence and their attitudes about several issues relating to the accounting and auditing profession in Libya. In order to achieve the aim of this chapter, it is divided into four main sections. The first section presents a description and analysis of the background information of the participants (part one of the questionnaire). The second section provides the results of the descriptive and analytical analysis of the collected data that relates to the perceptions of the participants regarding the impact of the selected factors on auditor independence (part two of the questionnaire). The third section details the analysis of the participants' attitudes about the auditing and accounting profession and its related environment in the Libyan context (part three of the questionnaire). Finally, a summary of the main results is provided in the fourth section.

7. 1: Analysis of part one of the questionnaires.

The first part of the questionnaire is concerned with some general information about the participants of the study such as gender, age, level of education, subject of study and experience. This information was sought to ascertain some of the attributes and characteristics of the participants. Pallant (2007) recommended that in studies involving human subjects, it is useful to collect information such as the number of participants in the sample, the number and percentage of males and females in the sample, the range and mean of ages, education level and any other relevant background information. The following analysis outlines the background information of the participants of the current study as follows:

7. 1. 1: Gender.

Table (7. 1) shows that almost all (98.78%) of the aggregate participants (n = 405) were male and only small minority (1.22 %) were female (n = 5). None of the participants from the TBA or the BLO were females. This indicates that in developing countries like Libya, males still occupy a very high proportion of the professional jobs, like accounting and auditing.

Table (7. 1): Participants' gender.

Description		EA		IFA		TBA		BLO		Total	
		No	%	No	%	No	%	No	%	No	%
Gender	Male	**145**	**98.0**	**101**	**98.1**	**85**	**100**	**74**	**100**	**405**	**98.78**
	Female	3	2.0	2	1.9	0	0	0	0	5	1.22
	Total	**148**	**100**	**103**	**100**	**85**	**100**	**74**	**100**	**410**	**100**

EA = External auditors, IFA =Auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers

7. 1. 2: Age.

As can be seen in table (7. 2) the age of the participants ranged from under 30 to over 50 years old. The highest number of participants among the four groups except for the BLO was recorded on the 30 to 39 years age category (n = 184). More specifically, 63.1%, 48.2% and 37.8% of the IFA, the TBA and the EA were aged 30 to 39 years while 45.9% of the BLO aged 40 to 49 years. In general, it can be seen that the vast majority (83.9%) of the aggregate participants were aged 30 years and over (n = 344).

Table (7. 2): Participants' age.

Description		EA		IFA		TBA		BLO		Total	
		No	%	No	%	No	%	No	%	No	%
Age	Under 30 years	24	16.2	10	9.7	32	37.6	0	0	66	16.10
	30 to 39 years	**56**	**37.8**	**65**	**63.1**	**41**	**48.2**	22	29.7	**184**	**44.88**
	40 to 49 years	28	18.9	22	21.4	4	4.7	**34**	**45.9**	88	21.46
	50 years and over	40	27.0	6	5.8	8	9.4	18	24.3	72	17.56
	Total	**148**	**100**	**103**	**100**	**85**	**100**	**74**	**100**	**410**	**100**

EA = External auditors, IFA =Auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers

7. 1. 3: Level of education.

Table (7. 3) shows the education level of the participants. The majority (82.44%) of the participants held a first university degree (n = 338) and approximately 15% of them held

a masters degree (n = 61) while only small minority (2.68%) held a PhD (n = 11). In addition, the table shows that none of the participants held any level of education other than a first university degree, masters degree or PhD. All participants (100%) held a high level of education qualifications which suggests that they are well educated individuals who can understand and consider the importance of the subject of the research.

Table (7. 3): Participants' level of education.

Description		EA		IFA		TBA		BLO		Total	
		No	%	No	%	No	%	No	%	No	%
Education level	First university degree	**104**	**70.3**	**89**	**86.4**	**79**	**92.9**	**66**	**89.2**	**338**	**82.44**
	Master degree	33	22.3	14	13.6	6	7.1	8	10.8	61	14.88
	PhD	11	7.4	0	0	0	0	0	0	11	2.68
	others	0	0	0	0	0	0	0	0	0	0
	Total	**148**	**100**	**103**	**100**	**85**	**100**	**74**	**100**	**410**	**100**

EA = External auditors, IFA =Auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers

7. 1. 4: Subject of study.

Table (7. 4) indicates that nearly all (97.32%) of the participant subject of study was in accounting (n = 399). Only a small minority (2.44%) of them however, were specialising in management and just 1 participant's specialised in economics. This demonstrates that the subject of study for most of the participants from the four targeted groups was in accounting which suggests that they have the required knowledge to understand the importance of the subject of the research.

Table (7. 4): Participants' subject of study.

Description		EA		IFA		TBA		BLO		Total	
		No	%	No	%	No	%	No	%	No	%
Subject of study	Accounting	**148**	**100**	**103**	**100**	**82**	**96.5**	**66**	**89.2**	**399**	**97.32**
	Management	0	0	0	0	3	9.5	7	9.5	10	2.44
	Economic	0	0	0	0	0	0	1	1.4	1	0.24
	others	0	0	0	0	0	0	0	0	0	0
	Total	**148**	**100**	**103**	**100**	**85**	**100**	**74**	**100**	**410**	**100**

EA = External auditors, IFA =Auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers

7. 1. 5: Years of working experience.

It can be seen from table (7. 5) that nearly one third (30%) of the aggregate participants had 10 to 14 years working experience (n = 123). The highest percentages of working experience for the EA and the TBA groups were recorded on the 5 to 9 years category while approximately 40% of the IFA and less than half (45.9%) of the BLO counted for 10 to 14 years of working experience. In general, it can be seen that 79.76% of the aggregate participants, had more than 5 years of working experience (n = 327). This result demonstrates that more than three quarters of the participants held reasonable length of working experience.

Table (7. 5): Participants' years of working experience.

Description		EA		IFA		TBA		BLO		Total	
		No	%	No	%	No	%	No	%	No	%
Working experience	Under 5 years	28	18.9	20	19.4	28	32.9	7	9.5	83	20.24
	5 to 9 years	**40**	**27.0**	17	16.5	**33**	**38.8**	19	25.7	109	26.59
	10 to 14 years	32	21.6	**41**	**39.8**	16	18.8	**34**	**45.9**	**123**	**30.00**
	15 years and over	48	32.4	25	24.3	8	9.4	14	18.9	95	23.17
	Total	**148**	**100**	**103**	**100**	**85**	**100**	**74**	**100**	**410**	**100**

EA = External auditors, IFA =Auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers

Overall, it can be seen from tables (7. 1 - 7. 5) above that the vast majority of participants in the current study were aged 30 years and over, possessed high levels of education, specialised in accounting and well experienced to understand the subject of the study and to participate in it in a responsible manner. Therefore, participants' responses from the four groups appeared to be authoritative.

7. 2: Analysis of part two of the questionnaire.

This section presents the results of the analysis of part two of the questionnaire which sought information about the perceptions of the EA, IFA, TBA and the BLO regarding the effect of audit firm size, audit firm tenure, competition, auditors' economic dependence on their audit clients, audit committees, status and financial condition of the audit client, financial relationships, personal relationships and provision of (NAS) on auditor independence. The main objective of this part of the questionnaire is to collect data that will help in answering research questions one and two:

Q1- How do participants from the EA, IFA, TBA and BLO perceive the effect of audit firm size, audit firm tenure, competition, auditors' economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of (NAS) on auditor independence?

Q2- Do perceptions of auditor independence significantly differ between participants from the EA, IFA, TBA and BLO with respect to the effect of audit firm size, audit firm tenure, competition, auditor's economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and provision of (NAS)?

Respondents were asked to indicate on a five-point Likert scale their perceptions of the influence that the above factors might have on auditor independence. The Likert scale was designed to measure the extent to which the participants' perceptions that each statement related to the above factors will undermine or enhance auditor independence. The scale of perception ranged from seriously undermines independence to strongly enhances independence. It was decided for the textual summaries to aggregate "seriously undermines independence" and "slightly undermines independence" responses and "seriously enhances independence" and "slightly enhances independence" responses. The means and tests for significant differences between respondents' responses that reported in each table are calculated on the full 5-point distribution of responses. In order to present the results of the analysis of part two of the questionnaire, this section is divided into nine parts including 31 statements which describe several auditor-client relationships. Each part was intended to present the results of the participants' perceptions regarding the effect of each one of the nine factors that were selected for the purposes of the current study on auditor independence as follows:

7. 2. 1: Audit firm size and perceptions of auditor independence.

The perceived effect of audit firm size on auditor independence was examined in four auditor-client relationships. These include when an audit is performed by a sole practitioner (statement 2-1), a small audit firm (statement 2-2), a medium audit firm (statement 2-3) and a large audit firm (statement 2-4). The sample groups were asked to indicate whether auditor independence might be undermined or enhanced according to

each one of the above four auditor-client relationships. The participants' responses to these statements are presented in tables (7. 6, 7. 7 and 7.8).

The bold figures, as can be seen in tables (7. 6 and 7. 7), show the highest response frequencies and percentage for each statement by the four groups and their aggregate responses. For example, responses to statement (2-1) showed that more than half (52.4%) of the participants believed auditor independence is undermined when an audit is performed by a sole practitioner (n = 215). The highest percentages of response regarding this statement was the TBA (67.1%) followed by the EA (50%), BLO (47.3%) and the IFA (45.6%). On the other hand, only small minority (4.9%) of the aggregate participants believed auditor independence is enhanced in this situation (n = 20). As can be seen from table (7. 8), all measured means of the four groups' responses were below 3 and the lowest was the TBA (2.27). The average calculated mean was 2.44.

The second statement (statement 2-2) sought to examine participants' perceptions of auditor independence when an audit is performed by a small audit firm. It can be seen from tables (7. 6 and 7. 7) that nearly 20% of the aggregate responses believed auditor independence is undermined in this situation (n = 81). In contrast, only 13.4% of the participants believed that auditor independence is enhanced. A large proportion of the aggregate responses (66.8%) perceived auditor independence is neither undermined nor enhanced (n = 274). Table (7. 8) shows that the calculated response means of the EA, IFA, and TBA were all below 3 while it was 3 for the BLO. The average mean for the whole responses was 2.95.

In contrast to the previous statements, the third statement (statement 2-3) was perceived by participants from the four groups to enhance auditor independence. As can be seen in tables (7. 6 and 7. 7) that more than half (55.4%) of the participants believed auditor independence is enhanced when an audit is performed by a medium sized audit firm (n = 227). The highest percentages of responses was the TBA (62.3%) followed by the BLO (58.1%). Nevertheless, only 4.8% of the participants perceived auditor independence is undermined (n = 20). This result was supported by the calculated means of the participants' responses when all of them reported above 3 as seen in table (7. 8). The highest mean was the TBA (3.67) while the average mean was 3.53.

Similarly, tables (7. 6 and 7. 7) show that the vast majority (80%) of the participants from the four groups thought auditor independence is enhanced when an audit is performed by a large audit firm (n = 328). This was perceived most by the TBA (85.9%) followed by the BLO (83.8%). Again, a small minority (4%) of the participants had an opposite view and believed that auditor independence is undermined in this situation (n = 16). The calculated means of the participants' responses, as shown in table (7. 8), were all above 4 except for the BLO which was 3.97 and the highest was the IFA (4.10) while 4.06 was the aggregated mean.

According to the above results it can be suggested that auditor independence is perceived to be undermined when an audit is performed by a sole practitioner and by a small audit firm. This perception was expressed by the participants from the four groups except for the BLO who perceived auditor independence is neither undermined nor enhanced in the second statement (statement 2-2). On the other hand, all participants believed auditor independence is enhanced when an audit is performed by a medium sized audit firm or by a large audit firm.

With respect to the differences of perceptions of auditor independence among the participants from the four groups regarding the above four statements, the results from the one way ANOVA test revealed that there were no statistically significant differences as the P values for the four statements were .575, .897, .053 and .766 respectively (see table 7. 8). These results suggest that participants from the four targeted groups achieved general consensus on these four auditor-client relationships.

Table (7. 6): The response frequencies of the four groups with regard to audit firm size.

	Statement	EA			IFA			TBA			BLO			Total		
		SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE
2-1	Being a sole practitioner.	**74**	70	4	47	**56**	-	**57**	20	8	**35**	31	8	**215**	175	20
2-2	Being a small audit firm (less than 3 partners or up to 5 auditors)	26	**106**	16	18	**72**	13	19	**54**	12	18	**42**	14	81	**274**	55
2-3	Being a medium firm (3 to 5 partners or up to 10 auditors)	4	60	**84**	4	**52**	47	4	28	**53**	8	23	**43**	20	163	**227**
2-4	Being a big audit firm (more than 5 partners, over 10 auditors or a representative of one of the big four international audit firms).	-	32	**116**	-	26	**77**	8	4	**73**	8	4	**62**	16	66	**328**

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 7): The response percentages of the four groups with regard to audit firm size.

	Statement	EA			IFA			TBA			BLO			Total		
		SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%
2-1	Being a sole practitioner.	**50**	47.3	2.7	**45.6**	45.4	-	**67.1**	23.5	9.4	**47.3**	41.9	10.8	**52.4**	42.7	4.9
2-2	Being a small local firm (less than 3 partners or up to 5 auditors)	17.6	**71.6**	10.8	17.5	**69.9**	12.6	22.4	**63.5**	14.1	24.3	**56.8**	18.9	19.8	**66.8**	13.4
2-3	Being a medium firm (3 to 5 partners or up to 10 auditors)	2.7	40.5	**56.8**	3.9	**50.5**	45.6	4.7	32.9	**62.3**	10.8	31.1	**58.1**	4.8	39.8	**55.4**
2-4	Being a big audit firm (more than 5 partners, over 10 auditors or a representative of one of the big four international audit firms).	-	21.6	**78.3**	-	25.2	**74.7**	9.4	4.7	**85.9**	10.8	5.4	**83.8**	4	16	**80**

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) and 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 8): The one-way ANOVA test with Duncan post-hoc test with regard to audit firm size.

Statement		EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	Me	Std	P value	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO
2-1	Being a sole practitioner.	2.49	.733	2.45	.653	2..32	1.06	2.44	1.087	**2.44**	**.863**	0.575	-	-	-	-	-	-
2-2	Being a small local firm (less than 3 partners or up to 5 auditors)	2..93	.530	2..95	.549	2..96	.715	3.00	.776	**2.95**	**.623**	0.897	-	-	-	-	-	-
2-3	Being a medium firm (3 to 5 partners or up to 10 auditors)	3..56	.597	3.44	.622	3.67	.714	3.41	.828	**3.53**	**.678**	0.053	-	-	-	-	-	-
2-4	Being a big audit firm (more than 5 partners, over 10 auditors or a representative of one of the big four international audit firms).	4.08	.715	4.10	.779	4.07	1.01	3..97	1.033	**4.06**	**.858**	0.766	-	-	-	-	-	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

7. 2. 2: Audit firm tenure and perceptions of auditor independence.

The effect of audit firm tenure on auditor independence is investigated in four auditor-client relationships. These include when an audit firm has been auditing the client for less than 2 years (statement 2-5), for 2 to 4 years (statement 2-6), for 5 to less than 10 years (statement 2-7) and for 10 years and over (statement 2-8). The participants were requested to indicate whether auditor independence might be undermined or enhanced with regard to each one of the above relationships. The participants' responses are presented in tables (7. 9, 7. 10 and 7.11).

The bold figures in tables (7. 9 and 7.10) with regard to statement 2-5, indicate that more than half (56.3%) of the IFA (n = 58) and less than half (48.7%) of the BLO (n = 36) perceived auditor independence is enhanced when an audit firm has been auditing the client for less than 2 years, whereas the overwhelming majority (70.9%) of the EA and more than half (50.6%) of the TBA perceived auditor independence as neither enhanced nor undermined. In aggregate, the bold figures show that more than half (54.9%) of the participants agreed with the opinion of the EA and the TBA groups. Only small minority (2.1%) of the aggregate responses believed that auditor independence is undermined in this situation (n = 9). As can be seen in table (7. 11), all calculated means were above 3 and the highest was the IFA (3.72) while the aggregate mean was 3.56.

Response frequencies and percentages in tables (7. 9 and 7. 10) with respect to the perceived effect on auditor independence when an audit firm has been auditing the client for 2 to 4 years(statement 2-6), show that approximately one third (32%) of the aggregate responses believed auditor independence is undermined (n=131). The highest percentages was the TBA (38.8%) followed by the IFA (34%). Just 13.9% of the participants' aggregate responses, however, revealed that this situation was perceived as an enhancement factor to auditor independence (n = 57). Regarding the calculated response means for the four groups, table (7. 11) indicate that all means were less than 3 and the lowest was the EA (2.75). The average calculated mean was 2.78.

Statement (2-7) aimed to measure participants' perception of auditor independence when an audit firm has been auditing the client for 5 to less than 10 years. Tables (7.9 and 7. 10) show that a large proportion (69.5%) of the participants thought auditor

independence is undermined in this situation (n = 285). The group believed this most was the TBA (76.5%) followed by the IFA (68.9%). Contrary to this result, only 17.5% of the entire participants believed that auditor independence is enhanced (n = 72). With regard to the calculated means, it can be seen from table (7.11) that all groups' means were below 3 and the aggregated mean was 2.30.

Tables (7. 9 and 7. 10) show that the overwhelming majority (70.5%) of the aggregate responses of the participants perceived auditor independence is undermined when an audit firm has been auditing the client for 10 years and over (n = 289). The highest proportion was the TBA (76.5%) followed by the BLO (71.7%). On the other hand, only 20% of the participants believed that auditor independence is enhanced (n = 86) in this situation. It can be seen from table (7. 11) that all scored means were less than 3 and the least was the TBA (1.98) while the average mean was 2.14.

As illustrated in the above discussion, it can be assumed that auditor independence is believed to be undermined when an audit firm has been auditing the client for 2 to 4 years, 5 to less than 10 years and for 10 years and over. In contrast, auditor independence was perceived to be enhanced when an audit firm has been auditing the client for less than 2 years.

With respect to the differences of perceptions of auditor independence among the four groups regarding the effect of the above four statements, the results from the one way ANOVA test revealed that there were no statistically significant differences for statements 2-6, 2-7 and 2-8 as the P values for these statements were .794, .263 and .534 respectively. Only statement 2-5 produced significant differences as the P value was .030 which is less than .05. In order to obtain more insights into which groups differ from which, a post-hoc comparison using the Duncan test was conducted. The results of this test indicated that the mean score of the EA (3.43) rates significantly different from the mean score of the BLO (3.60). In addition, the mean score of the IFA (3.72) differed significantly from that of the TBA (3.52). Based on these results, it can be suggested, except for statement 2-5, that there was a common consensus among the responses of participants from the four targeted groups on the other three auditor-client relationships (statements 2-6, 2-7, and 2-8). It can be seen from table (7. 11) that statement 2-5 produced 3 significant differences.

Table (7. 9): The response frequencies of the four groups with regard to audit firm tenure.

Statement		EA			IFA			TBA			BLO			Total		
		SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE	**SU**	**NE**	**SE**
2-5	If the audit firm has been auditing the client for less than 2 years.	1	**105**	42	-	45	**58**	2	**43**	40	6	32	**66**	9	**225**	176
2-6	If the audit firm has been auditing the client for 2 to 4 years.	44	**92**	12	35	**55**	13	33	**36**	16	19	**39**	16	131	**222**	57
2-7	If the audit firm has been auditing the client for 5 to 10 years.	**100**	22	26	**71**	15	27	**65**	12	8	**49**	4	21	**285**	53	72
2-8	If the audit firm has been auditing the client for more than 10 years.	**100**	20	28	**71**	15	17	**65**	-	20	**53**	-	21	**289**	35	86

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 10): The response percentages of the four groups with regard to audit firm tenure.

Statement		EA			IFA			TBA			BLO			Total		
		SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%
2-5	If the audit firm has been auditing the client for less than 2 years.	0.7	**70.9**	28.4	-	43.7	**56.3**	2.4	**50.6**	47	8.1	43.2	**48.7**	2.1	**54.9**	43
2-6	If the audit firm has been auditing the client for 2 to 4 years.	29.7	**62.2**	8.1	34	**53.4**	12.6	38.8	**42.4**	18.8	25.7	**52.7**	21.6	32	**54.1**	13.9
2-7	If the audit firm has been auditing the client for 5 to 10 years.	**67.5**	14.9	17.6	**68.9**	14.6	16.5	**76.5**	14.1	9.4	**66.2**	5.4	28.4	**69.5**	13	17.5
2-8	If the audit firm has been auditing the client for more than 10 years.	**67.5**	13.5	18.9	**69**	14.5	16.5	**76.5**	-	23.5	**71.7**	-	28.3	**70.5**	8.5	20

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 11): The One-way ANOVA test with the Duncan post-hoc test regarding the audit firm tenure.

	Statement	EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	Me	Std	P value	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO
2-5	If the audit firm has been auditing the client for less than 2 years.	3.43	.767	3.72	.730	3..52	.683	3.60	.902	**3.56**	**.773**	0.030	*	-	*	*	-	-
2-6	If the audit firm has been auditing the client for 2 to 4 years.	2.75	.635	2.76	.706	2.80	.737	2.85	.886	**2.78**	**.722**	0.794	-	-	-	-	-	-
2-7	If the audit firm has been auditing the client for 5 to 10 years.	2.33	1.03	2.32	1.02	2.11	1.00	2.44	1.29	**2.30**	**1.07**	0.263	-	-	-	-	-	-
2-8	If the audit firm has been auditing the client for more than 10 years.	2.18	1.29	2.09	1.33	1.98	1.42	2.29	1.66	**2.14**	**1.40**	0.534	-	-	-	-	-	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

7. 2. 3: Competition and perceptions of auditor independence.

To examine the impact of competition among audit firms on perceptions of auditor independence, four auditor-client relationships were included in part two of the questionnaire. These were: when there is a high level of competition among audit firms (statement 2-9), when there is little competition among audit firms (statement 2-10), when audit firms use audit fee discounting and low-balling to get or to keep audit clients (statement 2-11) and when budget pressures are imposed by an audit firm on its staff (i.e. need to spend less than adequate time to do a proper audit) (statement 2-12). The participants were asked to indicate whether auditor independence might be undermined or enhanced with respect to each one of the above relationships. The participants' responses to these four statements are illustrated in tables (7. 12, 7. 13 and 7.14).

When there is a high level of competition among audit firms, the majority (90.7%) of participants, as shown in tables (7. 12 and 7.13), perceived auditor independence to be undermined (n = 372). This result was believed most by almost the entire participants from the IFA (97.1%) followed by the TBA (95.3%) and the BLO (90.5%). Contrary to this result, a small minority (4.4%) of the aggregate responses believed auditor independence is enhanced (n = 18). The calculated means for the responses of the four groups as indicated in table (7. 14) were all below 3 and the least was for the TBA (1.94) while the average calculated mean was 1.63.

As can be seen from tables (7. 12 and 7. 13), more than one quarter (27.1 %) of the aggregate responses of the participants perceived auditor independence to be enhanced when there is little competition among audit firms (n = 111). The highest proportion of this result was the BLO (39.2%) followed by the TBA (37.7%). The majority (59%) of the participants, however, believed auditor independence was neither enhanced nor undermined (n = 242) while just 13.9% viewed this situation as a threatening factor to auditor independence. In contrast to the previous statement, table (7. 14) illustrates that all calculated means were above 3 and the highest was the TBA (3.37). The aggregate mean was 3.18.

Tables (7. 12 and 7.13) indicate that when audit firms use audit fees discounting and low-balling to get or to keep audit clients, nearly three quarters (70.5%) of the aggregate

participants believed that auditor independence is undermined (n = 289). This belief was expressed most by the BLO (89.2%) followed by the IFA (83.5%), the TBA (71.7%) and the EA (51.3%). On the other hand, only a small minority (2.7%) of the EA perceived auditor independence to be enhanced in this situation. With regard to the calculated means of responses from the four groups, table (7. 14) revealed that all were below 3 with the lowest being the IFA (1.90) while the average mean was 2.08.

When budget pressures are imposed by an audit firm on its staff (i.e. inadequate time to do a proper audit) (statement (2. 12), a large proportion (60.8%) of the participants, as shown in tables (7. 12 and 7. 13), thought auditor independence is undermined (n = 249). The participants from the TBA reported the highest percentages (74.2%) among the other groups followed by the BLO (71.6%). A significant proportion (39.2%) of all participants believed that auditor independence was neither undermined nor enhanced. Notably, none of the participants perceived this situation as an enhancing factor to auditor independence. The calculated means, as shown in table (7. 14), were all below 3 and the lowest was the TBA (1.83) while the average mean was 2.17.

On the light of the above results, it can be suggested that auditor independence is perceived to be undermined in three of the four relationships. These were: when there is a high level of competition among audit firms, when audit firms use audit fee discounting and low-balling to get or to keep audit clients and when budget pressures are imposed by an audit firm on its staff. In contrast, auditor independence was perceived to be enhanced when there is little competition among audit firms.

Regarding the differences of perceptions of auditor independence among the four groups with respect to the above four statements, the results from the one way ANOVA test, as shown in table (7. 14), revealed that there were statistically significant differences between responses of the participants as the P values were .001, .007, .000, .000 for statements 2-9, 2-10, 2-11 and 2-12 respectively. In order to obtain more insights into which groups differ from which, a post-hoc comparison using a Duncan test was performed. The results from this test with respect to each statement are illustrated as follows:

Statement 2-9: The mean scores of the EA (1.86) rate significantly different from those of the IFA (1.53), the TBA (1.49) and the BLO (1.5). In all these cases the mean score of the EA is higher than the mean scores of the other three groups.

Statement 2-10: The mean responses of the EA (3.21) rate significantly differently from the TBA (3.37). In addition, the mean responses of the TBA (3.37) rate significantly differently from those of the IFA (3.01) and the BLO (3.12). In these two cases the mean score of the TBA was higher than the other two.

Statement 2-11: The mean score of the EA (2.35) differ significantly from those of the IFA (1.90), the TBA (1.94) and the BLO (1.95). The mean score of the EA in these cases is higher than the other three.

Statement 2-12: The mean responses of the EA (2.48) rate significantly different from those of the IFA (2.O9), the TBA (1.83) and the BLO (2.06). The mean score of the EA in these cases scored higher than the other three groups. Moreover, the mean responses of the TBA (1.83) rate significantly differently from those of the IFA (2.09) and the BLO (2.06). In these two cases the mean score of the TBA was lower than the other two.

From these results, it can be seen that there was no consensus among the responses of participants from the four groups on the above four relationships that sought to examine the effect of competition among audit firms on auditor independence (statements 2-9, 2-10, 2-11 and 2-12). As shown in table (7. 14), the participants' responses to these four statements in aggregate, produced 14 significant differences between two or more groups at the .05 level.

Table (7. 12): The response frequencies of the four groups with regard to competition between audit firms.

Statement		EA			IFA			TBA			BLO			Total		
		SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE	**SU**	**NE**	**SE**
2-9	There is a high level of competition among audit firms.	**124**	16	4	**100**	-	3	**61**	4	-	**67**	-	7	**372**	20	18
2-10	There is little competition among audit firms.	16	**92**	40	11	**82**	10	10	**43**	32	20	25	**29**	57	**242**	111
2-11	There is audit fee discounting and low-balling to get or keep the client	**76**	68	4	**86**	17	-	**61**	32	-	**66**	8	-	**289**	117	4
2-12	Budget pressures imposed by an audit firm on staff (i.e. need to spend less than adequate time to do a proper audit)	68	**80**	-	**65**	38	-	**63**	22	-	**53**	21	-	**249**	160	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 13): The response percentages of the four groups with regard to competition between audit firms.

Statement		EA			IFA			TBA			BLO			Total		
		SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%
2-9	There is a high level of competition among audit firms.	**83.7**	10.8	5.4	**97.1**	-	2.9	**95.3**	4.7	-	**90.5**	-	9.5	**90.7**	4.9	4.4
2-10	There is little competition among audit firms.	10.8	**62.2**	27	10.7	**79.6**	9.7	11.8	**50.6**	37.7	27	33.8	**39.2**	13.9	**59**	27.1
2-11	There is audit fee discounting and low-balling to get or keep the client	**51.3**	45.9	2.7	**83.5**	16.5	-	**71.7**	28.2	-	**89.2**	10.8	-	**70.5**	28.5	1
2-12	Budget pressures imposed by an audit firm on staff (i.e. need to spend less than adequate time to do a proper audit)	45.9	**54.1**	-	**63.1**	36.9	-	**74.2**	25.9	-	**71.6**	28.4	-	**60.8**	39.2	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 14): The one-way ANOVA test with Duncan post-hoc test with regard to competition between audit firms.

	Statement	EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	Me	Std	P value	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO
2-9	There is a high level of competition among audit firms.	1.86	.91	1..53	.654	1.49	.590	1..50	1.12	**1.63**	**.868**	0.001	*	*	*	-	-	-
2-10	There is little competition among audit firms.	3.21	.705	3.01	.542	3..37	.845	3.12	.810	**3.18**	**.728**	0.007	-	*	-	*	-	*
2-11	There is audit fee discounting and low-balling to get or keep the client	2..35	.781	1..90	.649	1..94	.792	1..95	.508	**2.08**	**.735**	0.000	*	*	*	-	-	-
2-12	Budget pressures imposed by an audit firm on staff (i.e. need to spend less than adequate time to do a proper audit)	2.48	.600	2.09	.798	1.83	.814	2.06	.708	**2.17**	**.759**	0.000	*	*	*	*	-	*

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

7. 2. 4: Auditors' economic dependence and perceptions of auditor independence.

This part shows the subject groups' perceptions of the effect of auditors' economic dependence on their audit clients on auditor independence in three different situations. These are: when an audit firm's profitability depends on the retention of a specific audit client (statement 2-13); when more than 10% of total firm's audit fees revenues were from one client (statement 2-14) and when an audit firm's desire is not to lose status by losing a key client (statement 2-15). The responses to these statements are detailed in tables (7.15, 7. 16 and 7. 17).

The bold figures in tables (7. 15 and 7. 16) indicate that the majority (87.8%) of the aggregate responses of the participants believed auditor independence is undermined when an audit firm's profitability depends on the retention of a specific audit client (n = 360). This opinion was expressed most by the entire BLO (100%) followed by the majority (93.2%) of the IFA. Notably, none of the participants perceived auditor independence to be enhanced. As can be seen from table (7. 17) all means were below 3 and the weakest was the BLO (1.43) while the average mean was 1.7.

When more than 10% of total firm's audit fees revenues were from one client, a large proportion (60%) of the aggregate respondents, as revealed in tables (7. 15 and 7. 16), thought auditor independence is undermined (n = 246). Again, none of the participants perceived this situation as an enhancing factor to auditor independence. Less than 3 were all of the calculated means and the average mean was 2.29, as shown in table (7. 17).

Statement (2.15) investigated participants' perception of auditor independence when an audit firm desires not to lose status by losing a key client. The bold figures in tables (7. 15 and 7. 16) indicate that nearly all of the TBA (90.6%), the vast majority (81.1%) of the BLO, approximately 80% of the IFA and 70.2% of the EA perceived auditor independence is undermined in this situation. In aggregate, the bold figure shows that more than three-quarter (78.8%) of the participants shared this belief. As with the previous two statements, none of the participants perceived this situation as an enhancing factor to auditor independence. Once again, as can be seen in table (7. 17), none of the calculated means were above 3 and the lowest was the IFA (1.69) while the aggregate mean was 1.84.

Based on the above results, it seems that participants from the four groups thought auditor independence is undermined in the three situations that were set to investigate the impact of auditors' economic dependence on their audit clients on auditor independence.

With regard to the different perceptions of auditor independence between the four groups relating to the above three statements, the results from the one way ANOVA test, as shown in table (7. 17), revealed that the responses of the four groups significantly differed as the P values were .000, .000 and .002 for statements 2-13, 2-14 and 2-15 respectively. In order to obtain more insight into which groups differ from which, a post-hoc comparison using a Duncan test was utilised. The results from this test with respect to each statement are provided as follows:

Statement 2-13: the mean score of the EA (1.94) rate significantly differently from those of the IFA (1.52) and the BLO (1.43). In these two cases the mean score of the EA was higher than the other two. In addition, the mean score of the TBA (1.77) rate significantly different from those of the IFA (1.52) and the BLO (1.43). In these two cases the mean score of the TBA was higher than the other two

Statement 2-14: The mean responses of the EA group (2.51) were significantly differently from those of the IFA (2.05) and the BLO (2.02). Moreover, the mean score of the TBA (2.43) rate significantly differently from those of the IFA (2.05) and the BLO (2.02). In these two cases the mean score of the TBA was higher than the other two.

Statement 2-15: the mean score for the EA (2.02) was significantly differently from those of the IFA (1.69), the TBA (1.76) and the BLO (1.77). In these three cases the mean score of the EA scored higher than the other three.

According to the results above, it can be argued that there was no consensus among the responses of participants from the four sample groups regarding the above three auditor-client relationships that sought to investigate the influence of auditors' economic dependence on his audit client on auditor independence (statements 2-13, 2-14, and 2-15). As can bee seen in table (7. 17), 11 significant differences are observed between two or more groups at the .05 level with respect to participants' responses for the three statements.

Table (7. 15): The response frequencies of the four groups with regard to auditors' economic dependence on their clients.

Statement		EA			IFA			TBA			BLO			Total		
		SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE
2-13	An audit firm's profitability depends on the retention of a specific audit client	**125**	24	-	**96**	7	-	**66**	19	-	**74**	-	-	**360**	50	-
2-14	Greater than 10 % of total firm's audit fees revenues are from one client.	**72**	76	-	**76**	27	-	38	**47**	-	**60**	14	-	**246**	164	-
2-15	An audit firm's desire is not to lose status by losing a key client	**104**	44	-	**82**	21	-	**77**	8	-	**60**	14	-	**323**	87	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 16): The response percentages of the four groups with regard to auditors' economic dependence on their clients.

Statement		EA			IFA			TBA			BLO			Total		
		SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%
2-13	An audit firm's profitability depends on the retention of a specific audit client	**83.8**	16.2	-	**93.2**	6.8	-	**77.6**	22.4	-	**100**	-	-	**87.8**	12.2	-
2-14	Greater than 10 % of total firm's audit fees revenues are from one client.	**48.6**	51.4	-	**73.8**	26.2	-	44.7	**55.3**	-	**81.1**	18.9	-	**60**	40	-
2-15	An audit firm's desire is not to lose status by losing a key client	**70.2**	29.7	-	**79.6**	20.4	-	**90.6**	9.4	-	**81.1**	18.9	-	**78.8**	21.2	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 17): The one-way ANOVA test with Duncan post-hoc test with regard to auditors' economic dependence on their clients.

	Statement	EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	Me	Std	P value	EA-IFA	EA-TBA	EA-BLO	IF-TBA	IF-BLO	TBA-BLO
2-13	An audit firm's profitability depends on the retention of a specific audit client	1.94	.614	1.52	.623	1.77	.792	1.43	.498	**1.71**	**.670**	0.000	*	-	*	*	-	*
2-14	Greater than 10 % of total firm's audit fees revenues are from one client.	2.51	.505	2.05	.683	2.43	.698	2.02	.596	**2.29**	**.647**	0.000	*	-	*	*	-	*
2-15	An audit firm's desire is not to lose status by losing a key client	2.02	.755	1.69	.790	1.76	.610	1.77	.750	**1.84**	**.746**	0.002	*	*	*	-	-	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

7. 2. 5: Audit committees and perceptions of auditor independence.

This section illustrates the perceptions of the effect of an audit committee on auditor independence held by the participants in two situations. These were when an audit committee is composed of competent non-executive directors existed in the audit client company (statement 2-16) and when there was no committee in the audit client (statement 2-17). The participants were requested to indicate whether these two statements would undermine or enhance auditor independence. The responses to these two statements are provided in tables (7.18, 7. 19 and 7. 20).

It can be seen from tables (7. 18 and 7. 19) that approximately (90%) of the aggregate participants perceived auditor independence to be enhanced when an audit committee is present in the audit client's company (n = 368). Looking more closely, almost the entire (96%) participants of the EA and the vast majority (91.9%) of the BLO believed that auditor independence is enhanced in this situation. Both the IFA and the TBA showed similar views when 89.3% and 77.6% of their respondents agreed with the opinion of the other two groups. All calculated means were above 4 and the highest was the EA (4.21) while the average mean was 4.17.

On the other hand, the bold figures in tables (7. 18 and 7. 19) show that more than two third (66.8%) of the participants expressed their belief that auditor independence is perceived to be undermined when an audit committee did not exist in the audit client (n = 274). The highest percentage of this perception among the four groups was the BLO (79.7%) followed by the TBA (68.3%) while only (64.1%) of the IFA and (61.5%) of the EA shared the same belief. Notably, none of them perceived auditor independence to be enhanced in this situation. All calculated means, as can be seen in table (7. 20), were under 3 and the lowest was the BLO (1.95) while the average mean was 2.17.

Accordingly, it appears that auditor independence is perceived to be enhanced when an audit committee existed in the client company. On the other hand, when an audit committee is not present in the audit client, auditor independence was perceived to be undermined.

Regarding the different perceptions of auditor independence among the four groups when an audit committee existed or did not in the audit client, the results from the one

way ANOVA test revealed that there were no statistically significant differences for the first statement (statement 2-16) as the P value was .595 but for the second statement the p value was .001 which indicates significant differences between the responses of the four groups regarding this statement. In order to obtain more insight into which groups differ from which, a post-hoc comparison using a Duncan test was performed. The results from this test revealed that the mean score of the EA (2.30) was significantly different from those of the TBA (2.04) and the BLO (1.95). In addition, the mean score of the IFA (2.25) significantly differed from those of the TBA (2.04) and the BLO (1.95).

In the light of the above results, it can be suggested that there was a consensus among the responses of participants from the sample groups with regard to the first statement (statement 2-16) while there were no consensus between them with respect to the second statement (statement 2-17). Four significance differences were produced among responses of the sample groups regarding this statement (see table 7. 20).

Table (7. 18): The response frequencies of the four groups with regard to audit committees.

Statement		EA			IFA			TBA			BLO			Total		
		SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE
2-16	Existence of an audit committee composed of non-executive directors whose are competent.	-	6	**142**	-	11	**92**	-	19	**66**	-	6	**68**	-	42	**368**
2-17	No existence of an audit committee.	**91**	57	-	**66**	37	-	**58**	27	-	**59**	15	-	**274**	136	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 19): The response percentages of the four groups with regard to audit committees.

Statement		EA			IFA			TBA			BLO			Total		
		SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%
2-16	Existence of an audit committee composed of non-executive directors whose are competent.	-	4	**96**	-	10.7	**89.3**	-	22.4	**77.6**	-	8.1	**91.9**	-	10.3	**89.7**
2-17	No existence of an audit committee.	**61.5**	38.5	-	**64.1**	35.9	-	**68.3**	31.8	-	**79.7**	20.3	-	**66.8**	33.2	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 20): The one-way ANOVA test with Duncan post-hoc test with regard to audit committees.

Statement		EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	Me	Std	P value	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO
2-16	Existence of an audit committee composed of non-executive directors whose are competent.	4.21	.502	4.17	.601	4.10	.740	4.18	.565	**4.17**	**.593**	0.595	-	-	-	-	-	-
2-17	No existence of an audit committee.	2..30	.613	2..25	.637	2.04	.770	1..95	.671	**2.17**	**.676**	0.001	-	*	*	*	*	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

7. 2. 6: The status and financial condition of the audit client and perceptions of auditor independence.

This section demonstrates the perceptions of the participants on the influence on auditor independence of the financial condition and status of the audit client in four different situations. These include when the audit client is in the state sector (statement 2-18), in the private sector (statement 2-19), in a strong financial condition (statement 2-20) and in a weak financial condition (statement 2-21). Participants were asked to express their perception of the influence of these four situations on auditor independence. The results of the responses to these issues are presented in tables (7. 21, 7. 22 and 7.23).

When the audit client is in the state sector, the majority (63.4%) of the aggregate responses, as shown in tables (7. 21 and 7. 22), perceived auditor independence to be enhanced (n = 260). This was perceived most by the BLO (77.1%) followed by the EA (62.1%). In contrast, only a small minority (6.3%) of the aggregate participants believed auditor independence is undermined in this situation. All of the calculated means for the responses of the four groups were above 3 as illustrated in table (7. 23) and the average mean was 3.67.

From tables (7. 21 and 7. 22), it can be seen that more than half (58.5%) of the participants perceived auditor independence to be undermined when the audit client is in the private sector (n = 240). More specifically, this view was held by more than three quarters (78.4%) and almost two third (62.4%) of the BLO and the TBA respectively. whereas, more than half (51.4%) of the EA and 55.3% of the IFA reached the same opinion. On the other hand, just 14% of the aggregate responses believed auditor independence is enhanced in this situation. None of the calculated means of the four groups' responses, as shown in table (7. 23), exceeded 3 and the average mean was 2.42.

Concerning the issue of whether auditor independence would be undermined or enhanced when the audit client is in a strong financial condition, tables (7. 21 and 7. 22) revealed that 43.4% of the participants perceived auditor independence to be undermined (n = 178). This belief was observed most by the TBA (60%) followed by the EA and the BLO (59.5%), and the IFA (59.2%). Auditor independence, however. was perceived neither undermined nor enhanced by nearly half (49%) of the aggregate

responses (n = 201). The four calculated means for the responses were all below 3 and the lowest was the BLO (2.41) while the average mean was 2.60.

Statement (2-21) sought to investigate the participants' perceived auditor independence when the audit client is in a weak financial condition. Tables (7. 21 and 7. 22) state that although 56% of the aggregate respondents believed that auditor independence neither undermined nor enhanced (n = 230), approximately 40% of them perceived independence is enhanced in this situation (n = 163). On the other hand, only small minority (4.2%) of the entire participants believed auditor independence is undermined. Similar to those of the first statement, as shown in table (7. 23), all calculated means were above 3 and the highest was the IFA (3.55) while the average mean was 3.39.

It appears from the previous results that when the audit client is in the state sector or in a weak financial condition, auditor independence was perceived to be enhanced. Whereas, when the audit client is in the private sector or in a strong financial condition, auditor independence was perceived to be undermined.

With respect to the different perceptions of auditor independence between participants from the four groups regarding the above four auditor-client relationships, the results from the one way ANOVA test, as illustrated in table (7. 23), revealed that except for the first statement (statement 2-18) where the p value was .065, all other three statements produced significant differences among the responses of the four groups. The calculated p values for statement 2-19, 2-20 and 2-21 were .000, .000 and .018 respectively. In order to obtain more insight into which groups differ from which, a post-hoc comparison using a Duncan test was conducted. The results from this test are provided as follows:

Statement 2-19: the mean score of the BLO (2.06) rate significantly differently from those of the EA (2.48), the IFA (2.44) and the TBA (2.61). In all these cases the score mean of the BLO was less than those of the other three groups.

Statement 2-20: the mean responses of the EA (2.78) significantly differed from those of the TBA (2.44) and the BLO (2.41). In these two cases the mean score of the EA was higher than the TBA and the BLO.

Statement 2-21: with regard to this statement, the only significant difference in the mean score of the responses of the four groups was between the EA (3.27) and the IFA (3.55).

Accordingly, it can be suggested that except for the first statement (statement 2-18), there was no consensus among the participants from the four sample groups with respect to the other three auditor-client relationships that investigated the effect of the financial condition and status of the audit client on auditor independence (statements 2-19, 2-20, and 2-21). As can be seen in table (7. 23), 6 significant differences were produced among two or more groups at the .05 level with respect to participants' responses to these statements.

Table (7. 21): The response frequencies of the four groups with regard to the status and financial condition of the audit client.

Statement		EA			IFA			TBA			BLO			Total		
		SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE
2-18	The audit client is in the state sector.	-	56	**92**	10	33	**60**	16	18	**51**	4	13	**57**	30	120	**260**
2-19	The audit client is in the private sector.	72	**76**	-	**57**	40	6	**53**	20	12	**58**	12	4	**240**	148	22
2-20	The audit client is in a strong financial condition.	44	**88**	16	39	**61**	3	**51**	26	8	**44**	26	4	178	**201**	31
2-21	The audit client is in a weak financial condition.	8	**96**	44	2	**54**	47	4	38	**43**	3	**42**	29	17	**230**	163

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 22): The response percentages of the four groups with regard to the status and financial condition of the audit client.

Statement		EA			IFA			TBA			BLO			Total		
		SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%
2-18	The audit client is in the state sector.	-	37.8	**62.1**	9.7	32	**58.3**	18.8	21.2	**60**	5.4	17.6	**77.1**	6..3	29.3	**63.4**
2-19	The audit client is in the private sector.	48.6	**51.4**	-	**55.3**	38.8	5.8	**62.4**	23.5	14.1	**78.4**	16.2	5.4	**58.5**	36.1	5.4
2-20	The audit client is in a strong financial condition.	29.7	**59.5**	10.8	37.9	**59.2**	2.9	**60**	30.6	9.4	**59.5**	50	5.4	43.4	**49**	7.6
2-21	The audit client is in a weak financial condition.	5.4	**64.9**	29.7	1.9	**52.4**	45.7	4.7	44.7	**50.6**	4.1	**56.8**	39.2	4.2	**56**	39.8

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 23): The one-way ANOVA test with Duncan post-hoc test with regard to the status and financial condition of the audit client.

	Statement	EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	Me	Std	P value	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO
2-18	The audit client is in the state sector.	3.78	.705	3.56	1.00	3.50	1.96	3.81	.886	**3.67**	**.966**	0.062	-	-	-	-	-	-
2-19	The audit client is in the private sector.	2.48	.553	2.44	.696	2.61	.952	2.06	.764	**2.42**	**.743**	0.000	-	-	*	-	*	*
2-20	The audit client is in a strong financial condition.	2.78	.665	2.62	.596	2.44	.732	2.41	.875	**2.60**	**.719**	0.000	-	*	*	-	-	-
2-21	The audit client is in a weak financial condition.	3.27	.724	3..55	.723	3.44	.626	3..36	.768	**3.39**	**.719**	0.018	*	-	-	-	-	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

7. 2. 7: Personal relationships and perceptions of auditor independence.

This part illustrates the participants' perceptions on the impact of personal relationships between auditors and their audit clients on auditor independence in three situations. These are: when an audit client's financial director was previously employed by the audit firm (statement 2-22); when one of the audit client's executive directors is a close friend of one of the audit team (statement 2-23) and when one of the audit client's executive directors is a brother of one of the audit team (statement 2-24). Respondents to these statements were asked to express their perception of the influence of these three situations on auditor independence. The results of the responses are provided in tables (7. 24, 7. 25 and 7.26).

When an audit client's financial director was previously employed by the audit firm, tables (7. 24 and 7. 25) indicate that the majority (68.6%) of the entire participants believed auditor independence is undermined (n = 281). The highest proportion with this belief were the TBA and the IFA who counted 85.9% and 73.8% respectively while only 64.8% of the BLO and 56.8% of the EA shared the same view. As can be seen from table (7. 26), the calculated means for the responses were all below 3 and the lowest was the TBA (1.74) whereas the average mean was 2.13.

As shown in tables (7. 24 and 7.25), when one of the audit client's executive directors is a close friend of one of the audit team, the vast majority (90.8%) of the aggregate responses perceived auditor independence to be undermined (n = 372). Going into more detail, this result was perceived by all (100%) of the TBA, nearly all (97.1%) of the IFA, 95.9% of the BLO and more than three quarters (78.4%) of the EA. In contrast, none of the participants believed this situation was an enhancing factor to auditor independence. Again, all calculated means of responses to this statement, as revealed in table (7. 26), were below 3 and the lowest was the TBA (1.60) while the average mean was 1.90.

The bold figures in tables (7. 24 and 7. 25) show that almost all (98.3%) of the participants from the four groups perceived auditor independence is undermined when one of the audit client's executive directors is a brother of one of the audit team (n = 403). Similar to the previous statement, none of the participants perceived auditor

independence is enhanced in this situation. Once again, all of the calculated means were below 3 and the least mean was the BLO (1.24) while the average mean was 1.35.

Accordingly, the results showed that auditor independence was perceived by the participants from the sample groups to be undermined when an audit client's financial director was previously employed by the audit firm, when one of the audit client's executive directors is a close friend of one of the audit team and when one of the audit client's executive directors is a brother of one of the audit team.

Regarding the different perceptions of auditor independence among the respondents from the four groups with respect to the above three statements, the results from the one way ANOVA test revealed that the three statement produced statistically significant differences as the P values were .000, .000 and .001 for statement 2-22, 2-23 and 2-24 respectively. To obtain more insight into which groups differ from which, a post-hoc comparison using a Duncan test was performed. The results from this test for each statement are provided as follows:

Statement 2-22: The mean responses of the EA (2.40) significantly differed from those of the IFA (2.07), the TBA (1.74) and the BLO (2.10). In these three cases the mean score of the EA was higher than those of the other three. In addition, the mean score of the TBA (1.74) was significantly different from those of the IFA (2.07) and the BLO (2.10). In these two cases the mean score of the TBA was lower than those of the IFA and the BLO.

Statement 2-23: The mean score of the EA (2) rate significantly different from those of the IFA (1.66), the TBA (1.60) and the BLO (1.79). In all these cases the mean score of the EA was more than the other three. Furthermore, the response mean of the BLO (1.79) significantly differed from the IFA (1.66) and the TBA (1.60). The mean score of the BLO, in these two cases, was higher than those of the IFA and the TBA.

Statement 2-24: With respect to this statement, only two cases of significant differences in the mean scores were produced. The mean responses of the EA (1.48) significantly differed from those of the IFA (1.29) and the TBA (1.28). In these two cases the mean score of the EA was higher than those of the other two.

According to the above results, it seems that there was no consensus among the responses of participants from the four sample groups with respect to the three auditor-client relationships that sought to investigate the effect of the personal relationships between auditors and their audit clients on auditor independence. As can be seen from table (7.26), 13 significant differences were observed between two or more groups at the .05 level with respect to responses to these statements.

Table (7. 24): The response frequencies of the four groups with regard to the auditors' personal relationships with their audit clients.

Statement		EA			IFA			TBA			BLO			Total		
		SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE
2-22	If an audit client's financial director was previously employed by the audit firm which does the audit.	**48**	64	-	**76**	24	3	**73**	12	-	**48**	26	-	**281**	126	-
2-23	If one of the audit client's executive directors is a close friend of one of the audit team.	**106**	32	-	**100**	3	-	**85**	-	-	**71**	3	-	**372**	38	-
2-24	If one of the audit client's executive directors is a brother of one of the audit team.	**144**	4	-	**100**	3	-	**85**	-	-	**74**	-	-	**403**	7	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 25): The response percentages of the four groups with regard to the auditors' personal relationships with their audit clients.

Statement		EA			IFA			TBA			BLO			Total		
		SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%
2-22	If an audit client's financial director was previously employed by the audit firm which does the audit.	**56.8**	43.2	-	**73.8**	23.3	2.9	**85.9**	14.1	-	**64.8**	35.1	-	**68.6**	30.7	.7
2-23	If one of the audit client's executive directors is a close friend of one of the audit team.	**78.4**	21.6	-	**97.1**	2.9	-	**100**	-	-	**95.9**	4.1	-	**90.8**	9.2	-
2-24	If one of the audit client's executive directors is a brother of one of the audit team.	**97.3**	2.7	-	**97.1**	2.9	-	**100**	-	-	**100**	-	-	**98.3**	1.7	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence) However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 26): The one-way ANOVA test with Duncan post-hoc test with regard to the auditors' personal relationships with their audit clients.

	Statement	EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	Me	Std	P value	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO
2-22	If an audit client's financial director was previously employed by the audit firm which does the audit.	2.40	.545	2.07	.859	1.74	.692	2.10	.768	**2.13**	**.744**	0.000	*	*	*	*	-	*
2-23	If one of the audit client's executive directors is a close friend of one of the audit team.	2	.659	1.66	.534	1.60	.492	1.79	.496	**1.90**	**.590**	0.000	*	*	*	-	*	*
2-24	If one of the audit client's executive directors is a brother of one of the audit team.	1.48	.553	1.29	.516	1.28	.452	1.24	.432	**1.35**	**.512**	0.001	*	*	*	-	-	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

7. 2. 8: Financial relationships and perceptions of auditor independence.

The impact of financial relationships between auditors and their audit clients on auditor independence are examined in three auditor-client relationships. These are when an audit firm has unpaid audit and non-audit fees from the previous years (statement 2-25), when a partner or a member of the audit staff of an audit firm owns material shares in the audit client (statement 2-26) and when an auditor in an audit firm has received an interest free loan from an audit client (statement 2-27). Participants were asked to indicate whether each one of these situations might undermine or enhance auditor independence. Responses related to these statements are presented in tables (7. 27, 7.28 and 7. 29):

It can be seen from tables (7. 27 and 7. 28) that less than half (43.1%) of the aggregate participants believed that auditor independence is undermined when an audit firm has unpaid audit and non-audit fees from the previous years (n = 177). This viewpoint was perceived most by the IFA (62%) followed by the EA (48%) and the TBA (47%) while just 20% of the BLO shared the same opinion. On the other hand, only 2% of the entire participants viewed this situation as an enhancement factor to auditor independence (n = 8). Over half (54.9%) of the aggregate participants, however, thought this situation neither undermined nor enhanced auditor independence (n = 225). All calculated means, as shown in table (7. 29), were below 3 and the lowest was the IFA (2.13) whereas the average mean was 2.46.

When a partner or a member of the audit staff of an audit firm owns material shares in the audit client, most (97%) of the aggregate responses, as illustrated in tables (7. 27 and 7. 28), perceived this situation as a threatening factor to auditor independence (n = 398). In contrast, none of them perceived auditor independence to be enhanced. Table (7. 29) revealed that none of the calculated means reached 3 and the least was the BLO (1.28) while the average mean was 1.40.

Concerning the perceptions of auditor independence held by the participants when an auditor in an audit firm has received an interest free loan from an audit client, tables (7. 27 and 7.28) show that more than three quarters (78%) of the aggregate participants' responses believed auditor independence is undermined (n = 320). More specifically, this opinion was held by the overwhelming majority (97.1) of the IFA and the TBA (90.6), but at 64.8% and 63.5% of the EA and the BLO respectively. Similar to the

previous statement, none of the participants perceived auditor independence is enhanced in this situation. Once again, as provided in table (7. 29), all calculated means were below 3 and the average mean was 1.70.

It appears form the above results that auditor independence is perceived to be undermined in the above three auditor-client relationships.

With respect to the differences in perception of auditor independence between respondents from the four groups relating to the above three situations, as can be seen in table (7. 29), the results from the one way ANOVA test revealed that responses to statements 2-25 and 2-27 had produced significant differences as the P values was .000 for both of them whereas there was no statistically significant differences for statement 2-26 as the P value was .058 which is greater than 0.05. In order to obtain more insight into which groups differ from which relating to the responses of statements 2-25 and 2-27, a post-hoc comparisons using Duncan test was performed. The results from this test are provided as follows:

Statement 2-25: The mean score of the EA (2.70) significantly differed from those of the IFA (2.13) and the TBA (2.30). In these two cases the mean score of the EA was higher than for the other two. In addition, the response mean of the BLO (2.63) was significantly different from those of the IFA (2.13) and the TBA (2.30). The mean score of the BLO in these two cases was higher than those of the other two.

Statement 2-27: Four significant differences in the mean scores of the responses were produced in this statement. The mean responses of the EA (1.89) significantly differed from those of the IFA (1.38) and the TBA (1.51). In these two cases the mean score of the EA was higher than those of the other two. Moreover, the response mean of the BLO (1.97) scored significantly differently from the IFA (1.38) and the TBA (1.51). In these two cases the mean score of the IFA and the TBA were less than the BLO.

Based on the above results, it seems that except for the second statement (statement 2-26), there was no consensus among the responses of participants relating to the other two statements which sought to examine the impact of the financial relationships. As can be seen in table (7. 29), in aggregate, eight significant differences are observed between two or more groups at the .05 level with respect to participants' responses for statements 2-25 and 2-27.

Table (7. 27): The response percentages of the four groups with regard to the auditors' financial relationships with their audit clients.

Statement		EA			IFA			TBA			BLO			Total		
		SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE
2-25	If there is unpaid audit and non-audit fees from the previous year s.	48	**96**	4	**62**	41	-	**47**	38	-	20	**50**	4	177	**225**	8
2-26	If a partner or staff of an audit firm owns material shares in the audit client (the partner or the staff does not personally take any part in the audit).	**140**	8	-	**103**	-	-	**81**	4	-	**74**	-	-	**398**	12	-
2-27	If the auditor in an audit firm has received an interest free loan from an audit client.	**96**	52	-	**100**	3	-	**77**	8	-	**47**	27	-	**320**	90	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 28): The response percentages of the four groups with regard to the auditors' financial relationships with their audit clients.

Statement		EA			IFA			TBA			BLO			Total		
		SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%
2-25	If there is unpaid audit and non-audit fees from the previous year s.	32.4	**64.9**	2.7	**60.2**	39.8	-	**55.3**	44.7	-	27.1	**67.6**	5.4	43.1	**54.9**	2
2-26	If a partner or staff of an audit firm owns material shares in the audit client (the partner or the staff does not personally take any part in the audit).	**94.6**	5.4	-	**100**	-	-	**95.3**	4.7	-	**100**	-	-	**97**	3	-
2-27	If the auditor in an audit firm has received an interest free loan from an audit client.	**64.8**	35.1	-	**97.1**	2.9	-	**90.6**	9.4	-	**63.5**	36.5	-	**78**	22	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 29): The one-way ANOVA test with Duncan post-hoc test with regard to the auditors' financial relationships with their audit clients.

	Statement	EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	Me	Std	P value	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO
2-25	If there is unpaid audit and non-audit fees from the previous years.	2.70	.514	2.13	.804	2.30	.707	2.63	.803	**2.46**	**.730**	0.000	*	*	-	-	*	*
2-26	If a partner or staff of an audit firm owns material shares in the audit client (the partner or the staff does not personally take any part in the audit).	1.40	.592	1.37	.487	1.51	.589	1.28	.453	**1.40**	**.547**	0.058	-	-	-	-	-	
2-27	If the auditor in an audit firm has received an interest free loan from an audit client.	1.89	.896	1.38	.546	1.51	.665	1.97	.875	**1.70**	**.805**	0.000	*	*	-	-	*	*

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

7. 2. 9: Provision of (NAS) and perceptions of auditor independence.

This section shows the results of analyses of the participants' perceptions of the influence of the provision of NAS by auditors to their audit clients on auditor independence in four situations. These include when an audit firm does not provide any kind of NAS (statement 2-28), when an audit firm's fees from NAS are 25% to 49 % of audit fees (statement 2-29), when an audit firm's fees from NAS are 50% to 99% of audit fees (statement 2-31) and when an audit firm's fees from NAS are 100% or more of audit fees (statement 2-31). Respondents to these statements were required to provide their opinion on how they perceived the effect of these relationships on auditor independence. The participant's responses are presented in tables (7.30, 7. 31 and 7. 32).

The bold figures in tables (7. 30 and 7. 31) indicate that the overwhelming majority (71.4%) of the aggregate respondents believed auditor independence is enhanced when an audit firm does not provide any kind of NAS to its audit clients (n = 293). The highest figure among the participants from the four groups was the EA (78.3%) followed by the TBA (76.4%) and the BLO (75.7%) while just over half (54.4%) of the IFA agreed with this view. Notably, none of the participants perceived auditor independence to be undermined in this situation. With regard to the calculated mean scores, table (7. 32) show that all means were above 4 except for the IFA which was 3.70 and the average was 4.06.

On the issue of whether auditor independence might be undermined or enhanced when an audit firm's fees from NAS are 25% to 49% of audit fees, the bold figures in tables (7. 30 and 7. 31) illustrate that the majority (61%) of the aggregate participants thought that this situation neither undermined nor enhanced auditor independence (n = 250) while more than one third (34.2%) of them perceived this auditor-client relationship as a threat to auditor independence (n = 140). On the other hand, only a small minority (4.8%) of the participants perceived it as an enhancing factor to auditor independence. Contrary to the previous statement, all measured means were below 3 and the lowest was the IFA (2.50) while the average mean was 2.63.

When participants were asked to indicate the impact on auditor independence when an audit firm's fees from NAS are 50% to 99% of audit fees, the vast majority (86.3 %) of

the aggregate responses, as can be seen in tables (7. 30 and 7. 31), believed that auditor independence is undermined (n = 354). The highest percentage of participants was the TBA (95.3) followed by the IFA (92.3%). All calculated means were less than 3 and the lowest was the TBA (1.77) while the aggregate measured mean was 1.86.

Finally, statement (2-31) sought to examine the participants' perceptions of auditor independence when an audit firm's fees from NAS are 100% or more of audit fees. Similar to the previous statement, it can be seen from tables (7. 30 and 7. 31) that the majority (91.2%) of the participants perceived auditor independence is undermined (n = 374). Going into more detail, 100%, 94.6%, 92.2% and 83.8% of the participants from the TBA, BLO, IFA and EA respectively held this view. Once again, only 1% of the participants believed this situation might enhance auditor independence. All calculated means were below 3 and the lowest was the IFA (1.37) while the average mean was 1.36.

Considering the results above, it can be argued that auditor independence was perceived to be undermined in three out of the four auditor-client relationships that sought to examine the effect of provision of NAS on auditor independence (statements 2-28. 2-30 and 2-31). Only the first statement (statement 2-28), was perceived to enhance auditor independence.

Relating to the differences of perceptions of auditor independence among participants from the four groups with regard to the above four statements, as shown in table (7. 32), the results from the one way ANOVA test revealed that except for statement 2-30 where the p value was .374 which is greater than 0.05, there were statistically significant differences for the other three statements. The calculated P values for statements 2-28, 2-29 and 2-31 were .000, .019 and .009 respectively. To gain more insight into which groups differ from which, a post-hoc comparison using a Duncan test was conducted. The results determined from this test are provided as follows:

Statement 2-28: The mean score of the EA (4.24) was significantly different from the IFA (3.70). In addition, the response mean of the IFA (3.70) significantly differed from those of the TBA (4.09) and the BLO (4.17). In these two cases the mean score of the IFA is less than the other two.

Statement 2-29: The mean responses of the EA (2.72) significantly differed from that of the IFA (2.50). Ferthermore, the mean responses of the IFA (2.50) rate significantly different from the BLO (2.74).

Statement 2-31: The mean score of the EA (1.45) rate significantly differently from the TBA (1.90). Moreover, the mean response of the TBA (1.14) significantly differed from those of the IFA (1.37) and the BLO (1.41). The mean score of the TBA group in these cases is lower than the other two.

Based on the above results, it can be assumed except for statement 2-30, that there was no consensus among the responses of the participants from the four groups on the perceptions of auditor independence with regard to statements 2-28, 2-29 and 2-31. It can be seen in table (7. 32) that eight significant differences were produced between two or more groups at the .05 level with respect to participants' responses for statements 2-28, 2-29 and 2-31.

Table (7. 30): The response frequencies of the four groups with regard to the provision of non-audit services.

Statement		EA			IFA			TBA			BLO			Total		
		SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE	SU	NE	SE
2-28	The audit firm does not provide any kind of non-audit services to its audit clients	-	32	**116**	-	47	**56**	-	20	**65**	-	18	**56**	-	117	**293**
2-29	Fees from non-audit services are 25% to 49 % of income.	44	**92**	12	42	**61**	-	35	**46**	4	19	**51**	4	140	**250**	20
2-30	Fees from non-audit services are 50% to 99 % of income.	**116**	32	-	**95**	8	-	**81**	4	-	**62**	8	4	**354**	52	4
2-31	Fees from non-audit services are 100% or more of income.	**124**	24	-	**95**	8	-	**85**	-	-	**70**	-	4	**374**	32	4

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 31): The response percentages of the four groups with regard to the provision of non-audit services.

Statement		EA			IFA			TBA			BLO			Total		
		SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%	SU%	NE%	SE%
2-28	The audit firm does not provide any kind of non-audit services to its audit clients	-	21.6	**78.3**	-	45.6	**54.4**	-	23.5	**76.4**	-	24.3	**75.7**	-	28.5	**71.4**
2-29	Fees from non-audit services are 25% to 49 % of income.	29.7	**62.2**	8.1	40.7	**59.2**	-	41.2	**54.1**	4.7	25.7	**68.9**	5.4	34.2	**61**	4.8
2-30	Fees from non-audit services are 50% to 99 % of income.	**78.3**	21.6	-	**92.3**	7.8	-	**95.3**	4.7	-	**83.8**	10.8	5.4	**86.3**	12.7	1
2-31	Fees from non-audit services are 100% or more of income.	**83.8**	16.2	-	**92.2**	7.8	-	**100**	-	-	**94.6**	-	5.4	**91.2**	7.8	1

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 32): The one-way ANOVA test with Duncan post-hoc test with regard to the provision of non-audit services.

	Statement	EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	Me	Std	P value	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO
2-28	The audit firm does not provide any kind of non-audit services to its audit clients	4.24	.787	3.70	.736	4.09	.749	4.17	.799	**4.06**	**.796**	0.000	*	-	-	*	*	-
2-29	Fees from non-audit services are 25% to 49 % of income.	2.72	.686	2.50	.654	2.54	.732	2.74	.64	**2.63**	**.686**	0.019	*	-	-	-	*	-
2-30	Fees from non-audit services are 50% to 99 % of income.	1.89	.729	1.83	.544	1.77	.520	1.95	.957	**1.86**	**.698**	0.374	-	-	-	-	-	-
2-31	Fees from non-audit services are 100% or more of income.	1.45	.759	1.37	.628	1.14	.350	1.41	.950	**1.36**	**.711**	0.009	-	*	-	*	-	*

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

To obtain more insight into which relationships were perceived most to undermine or enhance auditor independence, tables (7. 33 and 7. 34) set out to indicate the rank and the mean response score for each of the 31 relationships. Table (7. 33) includes those situations which respondents thought undermined auditor independence (i.e., mean is less than 3), while table (7. 34) includes those situations which respondents thought enhanced auditor independence (i.e., mean is more than 3). Auditor-client relationships are listed in rank order for the EA as illustrated in tables (7. 33 and 7. 34).

With respect to those auditor-client relationships identified as undermining auditor independence as can be see in table (7. 33), with the exception of statement 2-27 that described a financial relationship (ranked 9th by the BLO), the four groups identify the same first five situations (although in a different order) as the most important undermining auditor independence. These include when a partner or staff of an audit firm owns material shares in the audit client, fees from non-audit services are 100% or more of audit fees, one of the audit client's executive directors is a brother of one of the audit team, there is a high level of competition among audit firms and when an auditor in an audit firm has received an interest free loan from an audit client. Notably, two out of the first five most undermining auditor independence situations were related to financial relationships (statements 2-26 and 2-27) whereas the other three related to the provision of NAS (statement 2-31), personal relationships (statement 2-24) and competition (statement 2-9).

Although different rankings were given to the other situations, it can be seen from table (7. 33) that on several occasions the sample groups almost shared the same opinion with respect to the ranking order. For instance, being a sole practitioner (statement 2-1) was ranked 15th by all groups except for the IFA who ranked it 17th. Furthermore, statement 2-29 (fees from non-audit services are 25% to 49 % of audit fees) was ranked 18th by the EA, IFA and the TBA while it was ranked 17th by the BLO. In addition, statement 2-15 (when an audit firm's desire is not to lose status by losing a key client) was ranked 7th by both the IFA and TBA while it was ranked 6th by the BLO and 8th by the EA.

In the end of the ranking order, as can be seen from table (7. 33), four auditor-client relationships were ranked by the sample groups as the least threatening situations to auditor independence (albeit in a different order) except for statement 2-20 which was

ranked 14th by the BLO. These include when fees from non-audit services are 25% to 49 % compared to the audit fees (statement 2-29), when the audit firm has been auditing the client for 2 to 4 years (statement 2-6), when the audit client is in a strong financial condition (statement 2-20) and being a small firm (less than 3 partners or up to 5 auditors) (statement 2-2).

In table (7. 34), among relationships identified as enhancing auditor independence, participants from the four sample groups shared the same belief regarding the importance of the enhancement influence to four statements except for statement 2-18 which was ranked 6th by the TBA and 5th by the IFA. These relationships are: when the audit firm does not provide any kind of non-audit services to its audit clients (statement 2-28), existence of an audit committee composed of competent non-executive directors (statement 2-16), being a big audit firm (statement 2-4) and when the audit client is in the state sector (statement 2-18). As can be seen in table (7. 34), these four situations were related to provision of NAS (statement 2-28), existence of an audit committee (statement 2-16), audit firm size (statement 2-4) and financial condition and status of the audit client (statement 2-18). Different ranking orders were given to the rest of the enhancement factors, as seen in table (7. 34), but on many occasions they were nearly in the same ranking order. For example, when the audit client is in the state sector (statement 2-18), both the EA and the BLO ranked it as the 4th enhancement factor to auditor independence whereas it was ranked 5th and 6th by the IFA and the TBA respectively. In addition, statement 2-5 (the audit firm has been auditing the client for less than 2 years) was ranked 5th by both the TBA and the BLO while it was ranked 3ed and 6th by the IFA and the EA respectively. At the end of table (7. 34), it can be seen that three auditor-client relationships were ranked as the least enhancing factors to auditor independence. These were: when the audit client is in a weak financial condition (statement 2-21), when there is little competition among audit firms (statement 2-10) and when there are unpaid audit and non-audit fees from the previous years (statement 2-25) (this situation was perceived only by the TBA group as the 9th enhancement auditor-client relationship to auditor independence).

Table (7. 33): Factors perceived to undermine auditor independence.

		Factors perceived to undermining auditor independence	EA rank	IFA rank	TBA rank	BLO rank	Mean score			
							EA	IFA	TBO	BLO
1	2-26	If a partner or staff of an audit firm owns material shares in the audit client (the partner or the staff does not personally take any part in the audit).	1	2 =	4 =	2	1.405	1.378	1.517	1.283
2	2-31	Fees from non-audit services are 100% of fee income.	2	2 =	1	3	1.459	1.378	1.141	1.419
3	2-24	If one of the audit client's executive directors is a brother of one of the audit team.	3	1	2	1	1.486	1.291	1.282	1.243
4	2-9	There is a high level of competition among audit firms.	4	5	3	5	1.864	1.534	1.494	1.50
5	2-27	If the auditor in an audit firm has received an interest free loan from an audit client.	5 =	3	4 =	9	1.891	1.388	1.517	1.973
6	2-30	Fees from non-audit services are 50% to 99 % of fee income.	5 =	8	8 =	8 =	1.891	1.835	1.776	1.959
7	2-13	An audit firm's profitability depends on the retention of a specific audit client	6	4	8 =	4	1.945	1.524	1.776	1.432
8	2-23	If one of the audit client's executive directors is a close friend of one of the audit team.	7	6	5	7	2.00	1.666	1.600	1.797
9	2-15	An audit firm's desire is not to lose status by losing a key client	8	7	7	6	2.027	1.699	1.764	1.770
10	2-8	If the audit firm has been auditing the client for more than 10 years.	9	12 =	11	13	2.189	2.097	1.988	2.297
11	2-17	No existence of an audit committee.	10	14	12	8 =	2.304	2.252	2.047	1.959
12	2-7	If the audit firm has been auditing the client for 5 to 10 years.	11	15	13	15 =	2.337	2.320	2.117	2.445
13	2-11	There is audit fee discounting and low-balling to get or keep the client	12	9	10	8 =	2.351	1.902	1.941	1.959
14	2-22	If an audit client's financial director, was previously employed by the audit firm which does the audit.	13	11	6	12	2.405	2.077	1.741	2.108
15	2-19	The audit client is in the private sector.	14 =	16	19	11 =	2.486	2.446	2.611	2.067
16	2-12	Budget pressures imposed by an audit firm on staff (i.e. need to spend less than adequate time to do a proper audit)	14 =	12 =	9	11 =	2.486	2.097	1.835	2.067
17	2-1	Being a sole practitioner.	15	17	15	15 =	2.493	2.456	2.329	2.445
18	2-14	Greater than 10% of total firm's audit fees revenues are from one client.	16	10	16	10	2.513	2.058	2.435	2.027
19	2-25	If there is unpaid audit and non-audit fees from the previous year s.	17	13	14	16	2.702	2.135	2.305	2.635
20	2-29	Fees from non-audit services are 25% to 49 % of fee income.	18	18	18	17	2.729	2.504	2.541	2.743
21	2-6	If the audit firm has been auditing the client for 2 to 5 years.	19	20	20	18	2.756	2.757	2.800	2.851
22	2-20	The audit client is in a strong financial condition.	20	19	17	14	2.783	2.621	2.447	2.418
23	2-2	Being a small local firm (less than 3 partners or up to 5 auditors)	21	21	21	19	2.932	2.951	2.964	3.000

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) and 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 34): Factors perceived to enhance auditor independence.

		Factors perceived to enhances auditor independence	EA rank	IFA rank	TBA rank	BLO rank	Mean score			
							EA	IFA	TBO	BLO
1	2-28	The audit firm does not provide any kind of non-audit services to its audit clients	1	4	2	2	4.243	3.708	4.094	4.175
2	2-16	Existence of an audit committee composed of non-executive directors whose are competent.	2	1	1	1	4.216	4.174	4.105	4.189
3	2-4	Being a big firm (more than 5 partners or over 10 auditors).	3	2	3	3	4.081	4.106	4.070	3.973
4	2-18	The audit client is in the state sector.	4	5	6	4	3.783	3.563	3.505	3.810
5	2-3	Being a medium firm (3 to 5 partners or up to 10 auditors)	5	7	4	6	3.567	3.446	3.670	3.418
6	2-5	If the audit firm has been auditing the client for less than 2 years.	6	3	5	5	3.439	3.728	3.529	3.608
7	2-21	The audit client is in a weak financial condition.	7	6	7	7	3.270	3.553	3.447	3.364
8	2-10	There is little competition among audit firms.	8	8	8	8	3.216	3.019	3.376	3.121
9	2-25	If there are unpaid audit and non-audit fees from the previous year s.	-	-	9	-	-	-	3.305	-

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) and 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the reported means and the significance tests are based on the full 5-point distribution of the responses.

7. 3: Analysis of part three of the questionnaire.

This section reports on the results of part three of the questionnaire (see Appendix B) which sought information about the perceptions and attitudes of participants from the EA, IFA, TBA and BLO on the auditing and accounting profession and its related environments in the Libyan context.

The key objective of part three of the questionnaire is to collect data that will help in answering research questions three and four. Specifically, to collect data to answer the following question:

Q3. How do participants from the EA, IFA, TBA and BLO perceive the auditing and accounting profession and its related legal, professional, social, and education environments in the Libyan context?

Q4- Do perceptions and attitudes of participants from the EA, IFA, TBA and BLO significantly differ about the accounting and auditing profession and its related legal, professional, social, and education environments in the Libyan context?

Respondents in this section were asked to indicate their agreement or disagreement with eight different statements that address several aspects and issues pertinent to the legal, professional, social, and education systems in Libya relating to the accounting and auditing profession by using a five point Likert scale ranging from (strongly disagree) to (strongly agree). To measure the response frequencies and percentages, and the differences in perceptions between participants from the four groups it was decided for the textual summaries to aggregate "strongly disagree" and "slightly disagree" responses and "strongly agree" and "slightly agree" responses. The means and tests for significant differences between respondents' responses that reported in each table are calculated on the full 5-point distribution of responses. Responses related to the above issues are presented in tables (7. 35, 7. 36 and 7. 37) and the bold figures in these tables show the highest response frequencies and percentage for each statement by the four groups and their aggregate responses.

The bold figures in tables (7. 35 and 7. 36) illustrate that the aggregate top response frequencies and percentages for the first six statements were either strong disagreement or disagreement with the statements whereas for the last two statements the highest

response frequencies and percentages were either neutral (statement 3-7. "The accounting and auditing profession in general and auditors in particular are enjoying a reasonable respect and statues in the Libyan society") or strongly agree or agree (statement 2-8. "Auditor's independence is very important in effectively and correctly completing the audit process of the audit clients' financial statements").

Looking in more detail, it can be seen from tables (7.35 and 7. 36) that nearly half (46.4%) of the aggregate responses disagreed that rules and regulations in the Libyan laws include comprehensive provisions that enhance and maintain auditor independence (statement 3-1) (n =190) while only 28.5% of them agreed with this statement (n = 117). This opinion was reached by all of the sample groups except for the IFA who were not decided. As can be seen from table (7. 37), all calculated mean responses were below 3 and the lowest was the BLO (2.38) while the average mean was 2.71. This result suggests that Libyan laws are seen by the sample groups, except for the IFA as not including comprehensive provisions that enhance and maintain auditor independence.

When participants were asked whether audit firms in Libya efficiently adhere to independence requirements (statement 3-2), as seen in tables (7. 35 and 7. 36), approximately 48% of the aggregate responses disagreed with this situation (n = 195) while only 29.7% of them agreed (n = 122). Surprisingly, the highest proportion was the EA (54%) followed by the IFA (45.6%) and the TBA (43.5%). All measured means were less than 3 and the least was the EA (2.54) except for the BLO group who scored (3.02). According to this result, it can be assumed that the sample groups believed that audit firms in Libya do not efficiently adhere to independence requirements except for the BLO group who held an opposite opinion.

Tables (7. 35 and 7. 36) show that more than half (53.2%) of the participants from the four groups disagreed that the LAAA plays an important role in developing the accounting and auditing profession (n = 218) (statement 3-3). This disagreement was shared by all sample groups although in different response percentages. Less than 3 were all calculated means and the lowest was the EA (2.24) while the aggregate mean was 2.51. This result suggest a general agreement among the participants from the four sample groups that the LAAA is not playing an important role in developing the accounting and auditing profession.

Similar to the previous statement, tables (7. 35 and 7. 36) revealed that the majority (62.7 %) of the aggregate responses disagreed that the LAAA is playing an important role in maintaining auditor independence (n = 257) (statement 3-4). The highest frequencies and percentages of responses regarding this issue was the EA (n = 108. 73%). None of the calculated means reached 3 and the highest was the BLO (2.65) while the average mean was (2.33). It appears on the light of this result that the LAAA is perceived by the four sample groups as not plying an important role in maintaining auditor independence.

Approximately (45%) of the participants from the four sample groups, as shown in tables (7. 35 and 7. 36), disagreed that the accounting and auditing profession is efficiently fulfilling its role in meeting the demands of its clients (n = 182) (statement 3-5). This belief was expressed most by the EA (48.6%) followed by 46% and 43.5% of the BLO and the TBA respectively whereas the largest percentage of responses of the IFA (46.6%) were undecided. On the other hand, nearly one quarter (24.9%) of the aggregate participants agreed with this statement (n = 102). Once again, all means were less than 3 and the lowest was the EA (2.62) while the aggregate mean was (2.75). Based on this result, it seems that the accounting and auditing profession is not efficiently fulfilling its role in meeting the demands of its clients as perceived, on aggregate, by the four sample groups.

Tables (7. 35 and 7. 36) illustrate that just over half (52%) of the aggregate responses disagreed that the accounting and auditing curriculum in the Libyan education system is sufficient to train auditors (n = 213) (statement 3-6). Specifically, 56.8%, 43.7%, 58.8% and 46% of the EA, the IFA, the TBA and the BLO respectively adopted this view. On the contrast, nearly one third (31.4%) of the entire participants from the four groups believed the opposite (n =129). With regard to the response mean, all were less than 3 and the average was 2.72 which indicate that participants from the four groups thought that the accounting and auditing curriculum in the Libyan education system is not sufficient to train auditors.

The bold figures in tables (7. 35 and 7. 36) show that more than half (55.4%) of the participants were not decided when asked to provide their opinions about whether the accounting and auditing profession in general and auditors in particular enjoy reasonable

respect and status in Libyan society (n = 227). Despite this opinion, 18.4%, 32.9% and 21.6% of the IFA, TBA and BLO respectively agreed that the accounting and auditing profession in general and auditors in particular enjoy reasonable respect and status in Libyan society. The only group who disagreed with this statement was the EA (40.6%). Table (7. 37) shows that all means reported above 3 except for the EA group (2.70) and the average was 2.93. According to this result, it can be suggested that the accounting and auditing profession in general and auditors in particular are perceived to enjoy reasonable respect and status in Libyan society by the sample groups except for the EA group who perceived the opposite.

Finally, as was expected, almost all (99%) of the participants from the four sample groups, as indicated in tables (7. 35 and 7. 36), agreed that auditor independence is very important in effectively and correctly completing the audit process of the audit clients' financial statements (n = 406). Only a small minority (4%) of the IFA group were undecided (n = 4). All calculated means were above 3 and the highest was the TBA group (4.65) while the average mean was 4.51. It appears from this result that all sample groups perceived the importance of auditor independence.

Concerning the differences of perceptions and attitudes among participants from the four sample groups with respect to the above eight statements that investigated the accounting and auditing profession and its related environment in the Libyan context, as shown in table (7. 37). The results from the one way ANOVA test revealed that except for statements 3-5 and 3-6 where the p values were .126 and .794 respectively which are greater than 0.05, there were statistically significant differences for the other 6 statements. The calculated P values for statements 3-1, 3-2, 3-3, 3-4, 3-7 and 3-8 were .045, .007, .000, .001, .000 and .034 respectively. In order to gain more insight into which groups significantly differ from which, a post-hoc comparison using a Duncan test was conducted. The determined results from this test are provided as follows:

Statement 3-1: The mean score of the BLO (2.38) was significantly different from those of the EA (2.73), the IFA (2.85) and the TBA (2.81). In these three cases the mean score of the BLO was less than the other three.

Statement 3-2: The mean responses of the EA (2.54) significantly differed from those of the IFA (2.69) and the TBA (2.95). The mean score of the EA in these two cases was lower than the other two.

Statement 3-3: The mean score of the EA (2.24) significantly differed from those of the IFA (2.53) and the TBA (2.60). The mean score of the EA in these two cases was lower than the other two. In addition, the mean score of the BLO (2.92) significantly differed from those of the IFA (2.53) TBA (2.60). In these two cases the mean score of the BLO was higher than the other two.

Statement 3-4: The mean response of the EA (2.14) rate significantly differently from those of the IFA group (2.20) and the TBA (2.55). The mean score of the EA in these two cases was lower than the other two. Moreover, the mean response of the IFA (2.20) significantly differed from those of the TBA (255) and the BLO (2.65). The mean score of the IFA in these cases is lower than the other two.

Statement 3-7: The mean score of the EA (2.70) significantly differed from those of the IFA (3.10), the TBA (3.02) and the BLO (3.07). In these three cases the mean score of the EA was less than the other three.

Statement 3-8: The mean response of the TBA (4.65) rate significantly different from those of the IFA (4.47) and the BLO (4.42). The mean score of the TBA in these three cases was higher than the other two.

Based on the above results, it can be seen that except for statement 3-5 and 3-6, that there was no consensus among the responses of the participants from the four groups on their perceptions and attitudes about the accounting and auditing profession and its related environment in the Libyan context. It can be seen from table (7. 37) that 18 significant differences were produced between two or more groups at the .05 level with respect to participants' responses for statements 3-1, 3-2, 3-3, 3-4, 3-7 and 3-8.

Table (7. 35): The response frequencies of the four groups with regard to the participants' attitudes about the Auditing and Accounting profession and its related environment in the Libyan context.

	Statement	EA			IFA			TBA			BLO			Total		
		SD	NE	SA	SD	NE	SA	SD	NE	SA	SD	NE	SA	**SD**	**NE**	**SA**
3-1	Roles and regulations in Libyan laws include comprehensive provisions that enhance and maintain auditor independence.	**72**	32	44	27	**38**	28	**35**	20	30	**46**	13	15	**190**	103	117
3-2	Audit firms in Libya efficiently adhere to independence requirements.	**80**	40	28	**47**	31	25	**37**	12	36	31	10	**33**	**195**	93	122
3-3	The Libyan Accountants and Auditors Association plays an important role in developing the accounting and auditing profession.	**92**	40	16	**52**	34	17	**45**	8	32	**29**	22	23	**218**	104	88
3-4	The Libyan Accountants and Auditors Association plays an important role in maintaining auditor independence.	**108**	12	28	**66**	27	10	**49**	12	24	**34**	33	7	**257**	84	69
3-5	The accounting and auditing profession is efficiently fulfilling its role in meeting the demands of its clients.	**72**	48	28	39	**48**	16	**37**	12	36	**34**	18	22	**182**	126	102
3-6	The accounting and auditing curriculum in the Libyan education system are sufficient to train auditors.	**84**	16	48	**45**	28	30	**50**	11	24	**34**	13	27	**213**	68	129
3-7	The accounting and auditing profession, in general and auditors in particular, are enjoy reasonable respect and status in Libyan society	60	**72**	16	7	77	19	26	31	**30**	11	**47**	16	104	**227**	79
3-8	Auditor's independence is very important in effectively and correctly completing the audit process of the audit clients' financial statements.	-	-	**148**	-	4	**99**	-	-	**85**	-	-	**74**	-	4	**406**

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 36): The response percentages of the four groups with respect to the participants' attitudes about the Auditing and Accounting profession and its related environment in the Libyan context

	Statement	EA			IFA			TBA			BLO			Total		
		SD%	NE%	SA%	SD%	NE%	SA%	SD%	NE%	SA%	SD%	NE%	SA%	SD%	NE%	SA%
3-1	Roles and regulations in Libyan laws include comprehensive provisions that enhance and maintain auditor independence.	**48.6**	21.6	29.8	35.9	**36.9**	27.2	**41.2**	23.5	35.3	**62.2**	17.6	20.2	**46.4**	25.1	28.5
3-2	Audit firms in Libya efficiently adhere to independence requirements.	**54**	27	19	**45.6**	30.1	24.3	**43.5**	14.1	42.4	41.9	13.5	**44.6**	**47.6**	22.7	29.7
3-3	The Libyan Accountants and Auditors Association plays an important role in developing the accounting and auditing profession.	**62.1**	27	10.9	**50.5**	33	16.5	**52.9**	9.4	37.7	**39.2**	29.7	31.1	**53.2**	25.4	21.4
3-4	The Libyan Accountants and Auditors Association plays an important role in maintaining auditor independence.	**73**	8.1	18.9	**64**	26.2	9.8	**57.7**	14.1	28.2	**45.9**	44.6	9.5	**62.7**	20.5	16.8
3-5	The accounting and auditing profession is efficiently fulfilling its role in meeting the demands of its clients.	**48.6**	32.4	19	37.8	**46.6**	25.6	**43.5**	14.1	42.4	**46**	24.3	29.7	**44.4**	30.7	24.9
3-6	The accounting and auditing curriculum in the Libyan education system are sufficient to train auditors.	**56.8**	10.8	32.4	**43.7**	27.2	29.1	**58.8**	12.9	28.3	**46**	17.6	36.4	**52**	16.6	31.4
3-7	The accounting and auditing profession in general and auditors in particular are enjoy reasonable respect and statues in Libyan society	40.6	**48.6**	10.8	6.8	**74.8**	18.4	30.6	**36.5**	32.9	14.9	**63.5**	21.6	25.4	**55.4**	19.2
3-8	Auditor's independence is very important in effectively and correctly completing the audit process of the audit clients' financial statements.	-	-	**100**	-	4	**96**	-	-	**100**	-	-	**100**	-	1	**99**

- EA = External auditors, IFA= auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers.
- SU = Seriously undermines independence, NE = Neither and SE = Seriously enhances independence.
- The responses were reported on a 5-point Likert scale ranging from 1 (Seriously undermines independence), 2 (Slightly undermines independence), 3 (Neither), 4 (Slightly enhances independence) And 5 (Seriously enhances independence). These 5-points have been aggregated into (Seriously undermines independence), (Neither) and (Seriously enhances independence). However, the Reported means and the significance tests are based on the full 5-point distribution of the responses.

Table (7. 37): The one-way ANOVA test with Duncan post-hoc test with regard to the participants' attitudes about the Auditing and Accounting profession and its related environment in the Libyan context.

	Statement	EA		IFA		TBA		BLO		Total		ANOVA test	Duncan test					
		Me	Std	Me	Std	Me	Std	Me	Std	**Me**	**Std**	P value	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBABLO
3-1	Roles and regulations in Libyan laws include comprehensive provisions that enhance and maintain auditor independence.	2.73	1.270	2.85	1.013	2.81	1.304	2.38	1.029	**2.71**	**1.184**	.045	-	-	*	-	*	*
3-2	Audit firms in Libya efficiently adhere to independence requirements.	2.54	1.156	2.69	1.038	2.95	1.122	3.02	1.238	**2.75**	**1.149**	.007	-	*	*	-	-	-
3-3	The Libyan Accountants and Auditors Association plays an important role in developing the accounting and auditing profession.	2.24	1.027	2.53	1.007	2.60	1.338	2.92	1.167	**2.51**	**1.140**	.000	-	*	*	-	*	*
3-4	The Libyan Accountants and Auditors Association plays an important role in maintaining auditor independence.	2.14	1.073	2.20	.932	2.55	1.304	2.65	.691	**2.33**	**1.054**	.001	-	*	*	*	*	-
3-5	The accounting and auditing profession is efficiently fulfilling its role in meeting the demands of its clients.	2.62	.971	2.75	.859	2.93	1.270	2.84	.860	**2.75**	**1.000**	.126	-	-	-	-	-	-
3-6	The accounting and auditing curriculum in the Libyan education system are sufficient to train auditors.	2.67	1.30	2.72	1.115	2.68	1.114	2.84	1.085	**2.72**	**1.177**	.794	-	-	-	-	-	-
3-7	The accounting and auditing profession in general and auditors in particular are enjoy reasonable respect and statues in Libyan society	2.70	.654	3.10	.579	3.02	1.102	3.07	.604	**2.93**	**.762**	.000	*	*	*	-	-	-
3-8	Auditor's independence is very important in effectively and correctly completing the audit process of the audit clients' financial statements.	4.51	.505	4.47	.573	4.65	.481	4.42	.496	**4.51**	**.519**	.034	-	-	-	*	-	*

- EA = External auditors, SA = State auditors, TBA = Taxation Board auditors and BLO = Bank loan officers.
- Me = Mean, Std = Standard deviation and P = P value of the significance of the one-way ANOVA test.
- (*) indicates to where the significant difference is for each comparison at 5% level
- (-) indicates to where is no significant difference for each comparison at 5% level.

7. 4: Summary.

The results from the analysed data from the questionnaire have been presented in this chapter. These include results relating to part one, two and three. With regard to the main results of part one, the majority of the participants were male aged from less than 30 to over 50 years, had a high level of accounting education and had good work experience. Therefore, participants' responses from the four groups appeared to be authoritative.

Considering the main results of part two, the analysis of collected data revealed that most participants perceived sole practitioners and small audit firms as being less independent than big and medium audit firms. Similarly, the majority of respondents perceived that auditor independence is undermined when an audit firm has the same audit client for a long period of time. With regard to the effect of competition between audit firms and the economic dependence of auditors on their audit clients, most respondents perceived auditor independence to be undermined in these two situations. The existence of an audit committee in the audit client is believed to enhance auditor independence, whereas, when an audit committee is not present in the audit client's company, auditor independence was perceived to be undermined. The majority of respondents considered auditor independence to be enhanced when the audit client is in the state sector and when it is in a weak financial condition, than when the audit client is in the private sector or in a strong financial condition. Personal relationships such as friendship, employment and family relationships between auditors and their audit clients were thought to undermine auditor independence. Similar views were held on the effect of financial relationships between auditors and their audit clients such as shareholdings, receipt of interest free loans and unpaid audit and non-audit fees. Finally, the provision of NAS by auditors to their audit clients with different proportions of fees compared to audit fees was perceived to undermine auditor independence while not providing any kind of NAS by auditors to their audit clients was believed to enhance auditor independence.

With respect to the analysis of part three of the questionnaire, the results indicated that the aggregate respondents from the four sample groups considered that Libyan laws did not include comprehensive provisions that enhance and maintain auditor independence.

Similarly, the LAAA was perceived as neither playing an important role in developing the accounting and auditing profession nor in maintaining auditor independence. The role of the accounting and auditing profession in meeting its clients' demands was not thought by the participants to be efficiently fulfilled. More than half of the participants from the four groups thought that the accounting and auditing curriculum in the Libyan education system is insufficient to train auditors. With regard to the respect and status of the accounting and auditing profession in general and auditors in particular, all groups believed that the accounting and auditing profession and auditors enjoy reasonable respect and status in Libyan society except for the EA group who perceived the opposite. Finally, auditor independence was perceived by all participants to be very important in effectively and correctly completing the audit process of the audit clients' financial statements.

In the end, it may be worth mentioning with regard to the collected data from the fourth part of the questionnaire which gathered participants' comments on the subject of the study and on the questionnaire (wording, layout, ambiguity and length), and to mention any issues they think are important and related to the subject of the study which had not been mentioned in the questionnaire. The analysed data of this part revealed that all collected data was related to personal issues such as the expression of participants' interest in the study and its importance, and the questions were relevant and covered the issues related to the subject of the research.

Chapter eight:

Findings of the semi-structured interviews

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Findings of the semi-structured interviews

8. 0: Introduction.

This chapter aims to present the results of the collected qualitative data from the semi-structured interviews. To achieve this, the chapter is organised into five main sections. The first section explains the reasons for conducting the interviews. Section two deals with analysing the background information of the interviewees while the third section reports on the effects of the nine selected factors on perceptions of auditor independence as held by the interviewees. The fourth section outlines the interviewees' perceptions and attitudes relating to the accounting and auditing profession and its related environments in the Libyan context. A brief summary of the main findings of the analysed qualitative data is provided in the fifth section.

8. 1: The purpose of conducting the interviews.

As mentioned in chapter six, 20 semi-structured interviews were conducted with randomly selected members from the four sample groups. These included 6 members of the EA, 6 members of the IFA, 4 members of the TBA and 4 members of the BLO.

The major purpose of conducting qualitative research is to understand and gain insight into the researched phenomena (Collis and Hussey, 2003; Sekaran, 2003; Easterby-Smith et al, 2006; Saunders et al, 2007). Thus, the main objective of collecting qualitative data in this study via semi-structured interviews was to give more insight to the findings of the quantitative data related to the participants' perceptions of auditor independence and attitudes on the auditing and accounting profession and its related environments in the Libyan context that were held by the four sample groups. More specifically, this part of the study sought to collect data that would help answering question five of the research questions which was worded as follows:.

> Q5 – Why such perceptions of the effects of audit firm size, audit firm tenure, competition, auditor's economic dependence on clients, audit committees, status and financial condition of the audit client, financial and personal relationships and

provision of (NAS) and attitudes on the auditing and accounting profession and its related environments in the Libyan context were held by EA, IFA, TBA and BLO?

8. 2: Interviewees background information.

The first question of the interview guide (see Appendix C) was intended to gather general information about the characteristics of the interviewees. The gathered information from the first question was related to the following issues:

1- Age: Interviewees were asked to indicate the age group to which they belonged. The interviewees' ages were divided into four groups. These were: under 30 years; from 30 to 39 years; from 40 to 49 years, and 50 years and over.

2- Level of education: Interviewees' level of education was categorised as: first university degree; master degree; PhD and others.

3- Working experience: Interviewees working experience was classified as: less than 5 years; 5 to 9 years; 10 to 14 years and 15 years and over.

Similar to the participants' background information that was collected from the questionnaire survey, the participants of the semi-structured interviews as can be seen from table (8.1) aged between 30 to over 50 years, held high levels of education and enjoy a long time of working experience.

Table (8. 1): Background information of the interviewees.

Description		EA		IFA		TBA		BLO		Total	
		No	%	No	%	No	%	No	%	No	%
Age	Under 30 years	0	0	0	0	0	0	0	0	0	0
	30 to 39 years	2	33.3	2	40	2	60	0	0	6	30
	40 to 49 years	1	16.7	2	40	1	20	2	50	6	30
	50 years and over	3	50	2	20	1	20	2	50	8	40
	Total	6	100	6	100	4	100	4	100	20	100
Education level	First university degree	4	66.6	4	60	3	80	3	100	14	70
	Master degree	1	16.7	2	40	1	20	1	0	5	25
	PhD	1	16.7	0	0	0	0	0	0	1	5
	Total	6	100	6	100	4	100	4	100	20	100
Working experience	Under 5 years	0	0	0	0	0	0	0	0	0	0
	5 to 9 years	3	50	1	16.6	0	0	0	0	4	20
	10 to 14 years	0	0	2	33.4	3	75	0	0	5	25
	15 years and over	3	50	3	50	1	25	4	100	11	55
	Total	6	100	6	100	4	100	4	100	20	100

EA = External auditors, IFA =Auditors from the Institute of Financial Auditing, TBA = Taxation Board auditors and BLO = Bank loan officers

Going into more detail, the majority (70%) of the interviewees were aged from 40 to 50 years and over. In addition, only one quarter (25%) of them held a Masters degree while 70% held a first university degree. With respect to the interviewees working experience, it can be seen from table (8.1) that more than half (55%) of the interviewees had working experience of 15 years and over while just one quarter (25%) enjoyed between 10 to 14 years of working experience. In general, the vast majority (80%) of the aggregate interviewees had working experience of 10 years and over. Therefore, interviewees' responses appeared to be authoritative.

8. 3: Interviewees' perceptions related to the effect of the nine selected factors.

This section provides the empirical evidence regarding the perceived effect of audit firm size, audit firm tenure, competition, auditors' economic dependence on their audit clients, audit committees, status and financial condition of the audit client, financial relationships, personal relationships and provision of (NAS) on auditor independence held by the participants from the four sample groups.

8. 3. 1: Audit firm size and interviewees' perceived auditor independence.

When the interviewees were asked to express how they perceive auditor independence to be affected by the size of the audit firm, the vast majority (70%) believed that sole practitioners and small audit firms are less independent than medium or big audit firms (Appendix F, matrix 1). This result was consistent with that of the questionnaire. The interviewees believed that as the size of the audit firm becomes bigger its work increases and it becomes less dependent on any particular client. This lack of perceived independence with regard to the small audit firms was attributed by the interviewees to several characteristics that small audit firms enjoy. According to the interviewees, these characteristics include: a) their dependence on one or few clients; b) their lack of expertise and ability to provide different kinds of services; c) their personalised approach when carrying out an audit. The following comments illustrate the views of some of the interviewees from the four sample groups on the effect of the audit firm size on auditor independence:

> *"Generally, I think the size of the audit firm seriously effects auditor independence. As the size of the audit firm increases, its revenues and reputation gets bigger too. This*

puts more responsibilities on the audit firm to protect these benefits (reputation and revenues). On the other hand, small audit firms in order to generate more revenues to cover their expenditures and to maintain the business, usually compromise their independence. Thus, I believe that as the size of the audit firm increases the more independent it becomes". (EA 3)

"Of course, the size of the audit firm has a tremendous impact on auditor independence. In reality, small and new audit firms often face the threat of losing their independence due to several reasons such as the severe competition between audit firms, its dependence on a few audit clients and the shortage of qualified staff. On the other hand, big audit firms usually enjoy a unique set of characteristics that distinguish them from the small and new audit firms such as their capability of recruiting effective and experienced auditors, providing different kinds of services and their ability to generate income from more than one or few clients" (BLO 2).

"Yes, I believe that the size of the audit firm has a huge impact on auditor independence. The increase of the size of the audit firm is a very good indication of its well-earned reputation. I think this could be seen as a result of different aspects such as the huge number of staff, the diversity of income resources and their adherence to the professional principles, whereas, small audit firms lack all these essential characteristics for maintaining auditor independence" (TBA 4).

In spite of the above mentioned characteristics that big audit firms enjoy which were seen by the majority of the interviewees to increase their independence, one of the IFA interviewee believed that in reality, the Institution of the Financial Auditing does not take this criterion (small v big) into account when deciding to contract with external audit firms. Commenting on this issue, he stated:

"I believe the size of the audit firm has a great influence on auditor independence. The big size of the audit firm indicates its effectiveness and capability of doing its work which means increasing its independence. In addition, the big size of the audit firm means it has a lot of clients that it could generate its income from. These characteristics are lacking when we talk about small audit firms. Regardless of these issues, the Institution of the Financial Auditing does not take these criteria in account when deciding to contract with any one of the audit firms. The main criteria for us are the integrity and the reputation of the audit firm and its capability of doing the audit work" (IFA 3).

Although the vast majority of the interviewees perceived big audit firms are more independent than small audit firms, some of the interviewees had an opposite viewpoint (Appendix F, matrix 1). They believed that independence could be undermined most in big audit firms than small audit firms. Relating to this issue one of the BLO declared:

"Yes, I think the size of the audit firm might negatively affect the independence of the audit firm especially with the big audit firms. As size of the audit firm gets bigger its work increases and its branches spread over different geographical areas. As a result, this will weaken the control procedures that relate to the protection of auditor

independence, whereas, better control procedures are implemented and practised among small audit firms" (BLO 1)

According to the above discussion, it can be argued that the size of the audit firm was seen by most of the interviewees to have a great impact on auditor independence. Big audit firms were perceived to enjoy independence more than small audit firms due to several characteristics that distinguish them.

8. 3. 2: Audit firm tenure and interviewees' perceived auditor independence.

When the interviewees were asked to express how they perceive auditor independence when an audit firm has been auditing the same audit client for a long period of time, mixed opinions were revealed (Appendix F, matrix 2). Half of the EA interviewees perceived auditor independence to be enhanced according to this situation. They believed that a long period of audit firm tenure with the same audit client could be beneficial for both the audit firm and the audit client. Long audit firm tenure ensures that the auditor gains more knowledge of his client's business which puts him in a position to objectively conduct the whole audit. Commenting on this issue, one of the EA interviewees stated:

> *"I think long audit firm tenure does not negatively affect auditor independence. In contrast, I believe that more experience and knowledge of the client's business could be gained as a result of long audit firm tenure which in turn saves a lot of time, costs and efforts for both the audit firm and its client. In addition, the auditor becomes more valuable from the client's perspective and possesses more strength against any potential disagreement with his client"* (EA 2).

A similar opinion was adopted by one of the IFA interviewees regarding the positive effect of the long association between audit firms and their audit clients. Expressing his viewpoint, the IFA interviewee said:

> *"I think there are a lot of advantages that could be gained from the long association between audit firms and their audit clients. For example, the comprehensive knowledge of the client's systems and operations, and savings in time and efforts in conducting the audit work. Nevertheless, I believe auditor independence would not be much affected regarding this issue because auditors perform according to a set of precise principles of the auditing profession"* (IFA 5).

On the other hand, the vast majority (80%) of the other interviewees perceived auditor independence is undermined when an audit firm performs audits for a long time for the

same audit client (Appendix F, matrix 2). The main concern of the interviewees regarding this issue was that an extended auditor-client relationship could result in the auditor becoming cosy in his relationship with his client that makes him become complacent in his audit performance or may result in adopting less rigorous procedures. This viewpoint was evident in the responses of the following interviewees:

> *"Of course, auditor independence could be undermined as a result of a long audit firm tenure with the same audit client. A long association between auditors and their audit clients may create cosy relationships that make auditors adopt less rigorous procedures due to over confidence in their client's management or to maintain the current audit fees"* (EA 4)

> *"Definitely, auditor independence will be negatively affected when an audit firm continues to audit the same audit client for a long period of time. Due to the long period of time that associates auditors with their audit clients' employees, a cosy relationship might be established between them. As you know, in the end this will lead auditors to neglect their work, either due to excessive confidence in their clients' systems or to keep their income generated from such clients"* (IFA 1).

> *"Yes, I think the long relationship between auditors and their audit clients will definitely influence their independence. As the time goes on, the way that auditors handle their work, will change. During the first years auditors will try to be more careful in their performance but when the time gets longer, a cosy relationship starts to develop between them and their audit clients which will eventually result in adopting less rigorous procedures when conducting an audit due to the resulted confidence of their clients' systems"* (BLO 3).

To overcome these disadvantages, audit firm rotation was suggested by some of the interviewees. For example, one of the TBA interviewee stated:

> *"Despite the advantages that could be achieved from the long audit firm tenure, I believe that the disadvantages outweigh the advantages and I suggest that a limited period of time, say five years, should be implemented as the maximum that an audit firm can perform an audit for its clients"* (TBA 2).

From the above results, it seems that auditor independence was believed to be undermined when an audit firm audits the same client for a long period of time due to the close relationship that could develop between auditors and their audit clients' management. This close relationship, as the majority of the interviewees thought, in the end would lead auditors to adopt less rigorous procedures.

8. 3. 3: Competition and interviewees' perceived auditor independence.

It was expected, based on the results obtained from the questionnaire that nearly most of the interviewees would perceive auditor independence to be undermined when there is a high level of competition between audit firms (Appendix F, matrix 3). The main reasons for this opinion as expressed by the interviewees were due to: a) The absence of the role of the LAAA to organise and control accounting and auditing practices; b) A huge number of audit firms chasing a few large audit clients; c) The absence of proper related regulations and d) The shortage of very experienced auditors especially in small and new audit firms. Once again, small and new audit firms were perceived by the majority of the interviewees to be the most influenced by the adverse effect of the high level of competition. The following comments indicate the interviewees' opinions concerning this issue:

> *"Absolutely right, as the level of the competition between audit firms increases as auditor independence decreases and the opposite is right. For instance, the existence of one or a few specialised and qualified auditors in a particular business activity will enhance their independence especially when they face disagreement situations with their clients' management"* (EA 5).

> *"Of course a high level of competition undermines auditor independence especially in the case of small and new audit firms who do not have the resources to face the severe impact of competition such as the diversity of income recourses and lack of experienced auditors"* (BLO 4).

Similarly, some of the interviewees mentioned that the severe impact of competition in developing countries is greater than that in developed countries due to several aspects such as the lack of proper organisation of the auditing profession and the absence of any related regulations. The following comments declare these opinions:

> *"I think the high level of competition among audit firms severely harms auditor independence especially in the developing societies where the performance of auditing is not properly organised. This situation has led several audit firms to offer lower audit fees than normal fee in order to keep their current clients or to get new ones. In addition, I believe that small and new audit firms suffer from the negative effect of the high levels of competition than big audit firms due to their lack of experience, reputation and qualified staff"* (TBA 2).

"Definitely, competition among audit firms undermines auditor independence especially in small developing countries like Libya where there are a lot of things that could exacerbate the problem such as the lack of experienced auditors, lack of organising the

auditing profession and the absence of any related regulations that could solve the existing problems except the old 116 law that was issued in 1973" (IFA 2).

Interestingly, one of the TBA interviewees, despite his agreement that a high level of competition between audit firms undermines auditor independence, thought that big audit firms rather than small ones would suffer most from this situation. Relating to this issue he stated:

> *"Yes I believe that high levels of competition between audit firms could affect auditor independence. As the competition increases, its negative impact on auditor independence will increase especially in the case of the big audit firms who use all means in order to keep their status and revenues within a determined level compared with other audit firms"* (TBA 1).

Although most of the interviewees believed auditor independence is undermined by a high level of competition especially in the case of small and new audit firms (Appendix F, matrix 3), some of the interviewees believed that the majority of audit firms especially the big ones do consider highly the importance of their independence and try hard to maintain it, as expressed in the following response:

> *"I think a high level of competition between audit firms might undermine auditor independence with respect to some audit firms but as far as I know most audit firms and especially the big and medium ones in Libya seriously consider the importance of auditor independence and work hard to protect it when performing their work"* (EA 6).

According to the previous results, it appears that auditor independence was perceived by the vast majority of the interviewees to be undermined when there is a high level of competition between audit firms. Small and new audit firms were seen as the most influenced by the negative effect of the high competition than big and medium audit firms. This perception, as expressed by the interviewees, was due to several characteristics that related to the small audit firms such as their lack of experience and of qualified staff.

8. 3. 4: Auditors' economic dependence and interviewees' perceived auditor independence.

The auditors' economic dependence on their audit clients was believed by the vast majority (80%) of the interviewees to undermine auditor independence (Appendix F, matrix 4). The interviewees believed that dependence on only a few clients will place the

auditor at the mercy of his client who feels that he is acting as the provider of the auditor's income and saving him from bankruptcy. Once again, this perception was noticed most in the cases of new and small audit firms. The following comments from some of the interviewees summarised their views relating to this situation:

> *"Yes, I think auditor's economic dependence on one or a few clients will undermine their independence especially for the new and small audit firms. I believe these firms in order to maintain their audit fees would be willing to do any thing that keeps their clients happy, thus, their independence would be sacrificed"* (BLO 3).

> *"I believe that auditor independence would be undermined if the auditor was economically dependent on one or a few clients for his income. This problem could be worse in the case of new and small audit firms and less in the case of big audit firms who usually have a lot of clients. This diversity of big audit firms' clients make them more capable of handling disagreement situations with their audit clients than small and new audit firms"* (IFA 4).

> *"I believe that the auditors' economic dependence on one or a few clients to generate most of their income would definitely undermine their independence especially in the case of the small and new audit firms. We can describe the small audit firm's income as the employee's monthly salary who strongly depends on it to pay all his expenses. In contrast, big audit firms often have more audit and non-audit clients who they could generate their income from which gives them the ability to protect their independence"* (EA 1).

On the other hand, a small minority (20%) of the interviewees considered that auditor independence is not undermined when auditors depend only on one or a few clients for generating their income (Appendix F, matrix 4). They believed auditors' honesty, integrity, religious beliefs and their commitment to the standards and procedures of auditing prevent them from undermining their independence. The following comments illustrate some of the interviewees' views on this issue:

> *"I do not think that auditor independence would be undermined when the auditor's income depends on one or a few clients. I believe that the process of auditing is performed according to a set of well known standards and procedures and auditors can not evade them just to keep their clients happy because auditors' integrity and religion beliefs work as forces to protect independence"* (EA 2).

Based on the above results, it appears that the auditors' economic dependence on one or a few clients was perceived by the interviewees to undermine auditor independence. Although this negative effect of the auditors' economic dependence on auditor independence was perceived to include most of the audit firms in the Libyan environment, small and new audit firms were perceived to be more affected by this adverse impact than big audit firms.

8. 3. 5: Audit committees and interviewees' perceived auditor independence.

As with the results of the questionnaires, all the interviewees (100%) agreed that the existence of an audit committee in the audit client's company will enhance auditor independence (Appendix F, matrix 5). They expressed the belief that the existence of an audit committee will provide auditors with the required protection that they need when being threatened by the management of the audit client in disagreement situations. In addition, interviewees believed that auditors will feel that there is another effective and qualified party other than the shareholders that would control and examine their performance. According to the interviewees, this would make auditors adopt more rigorous procedures when performing their audits. The following responses reflect these thoughts:

> *"Of course, I believe that the existence of an audit committee in the audit client's company will enhance the independence of the auditor. In this case auditors will find some party that could support them in cases where disagreements occur with the client's management. Also I think auditors will try to perform auditing in a more responsible manner because they would know that there will be someone who is going to control and examine their work"* (EA 3).

> *"I think the existence or the lack of an audit committee in the audit client's company has a great effect on auditor independence. I believe when such committees do exist in the audit clients' companies, auditors will feel more secure and perform in a honest and professional manner their audit duties because of the protection that such committees would provide them with, especially, in cases of disagreement with the audit clients' management"* (IFA 5).

> *"Definitely, the existence of an effective audit committee in the audit client's company would enhance auditor independence because auditors will consider this committee as a control mechanism that will examine their work which in turn make them increase their care and adopt rigorous procedures. In addition, such committees would support the auditors' point of views when there is a disagreement situation with the clients' management"* (TBA 3).

Although all interviewees perceived the important role that an audit committee could play in enhancing auditor independence, some of them emphasised that an audit committee's members should be qualified, knowledgeable, honest, and good religious believers in order to be effective and efficient (Appendix F, matrix 5). The following responses of some of the interviewees outline their opinions regarding this issue:

> *"I think the existence of audit committees could be helpful in terms of enhancing auditor independence but only if the members of these audit committees were honest,*

good religious believers, and qualified and have the required knowledge of the financial issues. Otherwise, I think the effect of these committees will be in the opposite direction" (BLO 2).

"Without any doubt, audit committees have a tremendous influence on auditor independence. I believe this influence will be in a positive direction when these committees include members who are well experienced in the financial matters and have the desire to protect the public's interest otherwise, I think their effect will be on the negative direction on auditor independence" (EA 1).

"Yes, the presence of an effective audit committee composed of non-executive directors who are honest, qualified and experienced members in the audit client's company will definitely enhance auditor independence" (IFA 2).

Generally, the overall responses indicate that the interviewees perceived auditor independence is enhanced when an audit committee is composed of competent non-executive directors exists in the audit client's company.

8. 3. 6: The status and financial condition of the audit client and interviewees' perceived auditor independence.

Similar to the results from the questionnaire, most of the interviewees perceived auditor independence is enhanced when the audit client is in the state sector or when it is in a weak financial condition than when it is in the private sector or is in a strong financial condition (Appendix F, matrix 6). This belief was expressed by most of the interviewees from the four groups. The main reasons for this opinion were due to: a) the proper and fair appointment procedure that the state audit clients adopt when contracting with auditors; b) auditors' fear of litigation if they fail to conduct their audits in a professional and proper manner when clients are in the state sector or in weak financial conditions and c) the audit firms desire to maintain the current and potential revenues in the case when clients are from the private sector or in good financial conditions. For example, the following responses reveal these thoughts:

"Of course, I think auditor independence could be affected by the financial condition of the audit client. Auditors would try not to lose clients who are in good financial condition in order to maintain their audit fees which in turn will undermine their independence. On the other hand, when an audit client is in a weak financial condition, auditors will adopt more rigorous procedures to be on the safe side in the case of any potential litigation. Also I think auditors will be more independent when the audit client is in the state sector than in the private sector owing to the way in which auditors are appointed" (IFA 3).

"I believe that auditor independence could be enhanced when the audit client is in the state sector because the appointment of the auditor is done by the Institute of Financial Auditing which is a government agency that will support auditors whereas in the private sector, the appointment of the auditor in reality would be through the management of the client. Also I think auditors will exhibit more independence when the audit client is in a weak financial condition in order to protect themselves in cases of potential litigations" (EA 2).

"I am sure that auditor independence will be more enhanced when their audit clients are in the state sector because the Institute of Financial Auditing is responsible for their appointment and their remuneration whereas in the private sector, the client's management has the full authority to perform this duty. Moreover, I think when audit clients are in a weak financial condition, auditors will enjoy more independence due to their fear of litigation if these weak clients went bankrupt. On the contrary in the case of clients who are in strong financial condition where auditors' desire is very strong not to lose such clients for their generated income" (BLO 3).

Contrary to these thoughts, one of the BLO interviewees believed that auditor independence would be more threatened when the audit client is in the state sector than when it is in the private sector. Commenting on this issue, he stated:

"In the case of the state audit clients, auditors might counter strong pressure in order to deter them from giving qualified reports on the performance of the state audit clients that could be understood as negative indications of the government's economic policy. On the other hand, auditor independence would be more enhanced when the client is in the private sector due to the greater freedom that auditors could enjoy. With respect to the effect of the weakness or the strength of the financial condition of the audit clients, I believe auditor independence will not be influenced" (BLO 4).

A small minority (15%) of the interviewees believed that auditor independence will not be affected whether the audit client is in the state sector or in the private sector or whether the financial condition of the audit client is strong or weak (Appendix F, matrix 6). This opinion is clearly expressed by the following interviewee's comments:

"I believe auditor independence will not be affected whether the audit client is in the state sector or in the private sector or whether the financial condition of the audit client is strong or weak, because auditors perform their work according to a well determined set of standards and procedures that should be adopted with all kind of clients without distinguishing between them according to their status or their financial condition" (EA 5).

Considering the above results which are consistent to those of the questionnaires, it can be suggested that auditor independence was perceived by the vast majority of the interviewees from the four sample groups to be more enhanced when an audit client is in the state sector or in a weak financial condition than when the audit client is in the private sector or in a strong financial condition.

8. 3. 7: Personal relationships and interviewees' perceived auditor independence.

As was expected based on the results of the questionnaire, the overwhelming majority (85%) of the interviewees believed auditor independence is undermined by the existence of personal relationships between auditors and their clients such as employment, close friendship and family relationship (Appendix F, matrix 7). Such relationships were perceived by the interviewees as dominant within developing societies such as Libya. In addition, most business relationships and economic transactions in the Libyan business environment were believed to be heavily dependent on these personal relationships. The threat to auditor independence from such relationships, as suggested by the interviewees, derived from the over-cosy relationship between auditors and their audit clients that would result in auditors reducing their professional detachment and objectivity. Also these relationships were perceived as potential threats to influence auditors' mental attitudes and opinions that may cause others to perceive them as not being independent. The following comments reveal some of the interviewees' thoughts regarding this issue:

> *"I believe that auditor independence could be seriously undermined by personal relationships between the auditor and his audit client such as blood relationships and close friendship especially in Libyan society where most of the economic and business transactions greatly depend on these relationships. When such relationships are present in the auditing environment, auditors' mental attitude will be influenced by the impact of these relationships no matter how hard auditors try to be objective and professional"* (BLO 2).

> *"Definitely, personal relationships between auditors and their audit clients could seriously undermine their independence especially when these relationships are with senior persons in the audit client's company who can influence the decision-making process. As you know, in the Libyan society, personal relationships are very strong and most of the economic and business contacts are determined according to these relations, therefore, I think auditors would usually favour the opinion of their client's management in order not to upset their relatives or friends"* (IFA 1).

> *"To be fair, I don't deny that there are some auditors who don't let their personal relationships influence their professional judgments when conducting their audits but in a developing society such as Libya where personal relationships are very strong and important to determine many aspects of the social, economic and political activities, auditors will not be able to act in an objective manner. Even if auditors were being objective, others who have an interest in the audit client will raise questions about auditor independence if personal relationships existed between auditors and their audit clients"* (TBA 3).

Although the overwhelming majority of the interviewees agreed that personal relationships were perceived to pose a threat to auditor independence, one of the EA

interviewees believed that this issue is more related to new and small audit firms than big audit firms. Commenting on this issue, he stated:

> *"Auditors are members of this interrelated society and definitely could be influenced by personal relationships such as close friendship and blood relationships but I think the negative side of the effect of such personal relationships would be more severe in the case of new and small audit firms than big audit firms due to different issues such as diversity of resources of income, excessive number of audit staff and experience"* (EA 4).

The negative impact of personal relationships on auditor independence was refuted by some (15%) of the interviewees who believed that such relationships will not deter auditors from objectively performing their professional duties. One of the EA interviewees stated:

> *"We all know that personal relationships in Libyan society are very strong and affect our lives in one way or another but when it comes to the performance of auditors, the situation is completely different. Auditors are professional practitioners who conduct their work according to well established professional principles and procedures and will not change their opinions just to please their clients because they know that doing such actions would harm their reputation in the business environment in general and among other audit firms in particular"* (EA 5).

From the above comments, it seems that there is a general agreement between the interviewees except for a small minority that personal relationships were perceived to have an adverse impact on auditor independence due to its dominant and pervasive role in determining most of the social, economic and political activities in the Libyan society.

8. 3. 8: Financial relationships and interviewees' perceived auditor independence.

Consistent with the results of the questionnaire, nearly all (95%) of the interviewees believed that auditor independence is undermined when financial relationships existed between auditors and their audit clients (Appendix F, matrix 8). These relationships included shareholdings, the receipt of interest free loans and unpaid audit and non-audit fees. According to the interviewees' responses, such relationships would create a strong bond between auditors and their audit clients that would prevent them from objectively auditing their clients' financial statements because these situations make auditors think that they have an interest in the success and continuation of their audit clients' businesses. Therefore, auditors might tolerate misrepresentations in some of their

clients' financial statements and not adopt rigorous procedures when conducting such audits. The following responses reveal some of the interviewees' opinions:

> *"I believe auditor independence could be seriously undermined by the existence of financial relationships between auditors and their audit clients especially in developing countries such as Libya where most of the economic and business relationships heavily depend on financial and personal relationships. The presence of such relationships would result in creating a cosy relationship between auditors and their audit clients which will make auditors feel that they have an interest in the success and continuance of their audit clients' businesses which in turn results in auditors adopting less rigorous procedures when conducting their audits"* (IFA 4).

In the same vein, one of the BLO interviewees expressed his opinion when he stated:

> *"Of course, financial relationships undermine auditor independence, especially when these relationships are with one of the members of the audit client's management or with persons who can effectively influence the process of decision-making"* (BLO 1).

One of the EA interviewees however, expressed less concern about the negative effect of the financial relationships on auditor independence especially for the big audit firms due to their desire to protect their reputation and the fear of litigation. Commenting on this issue, he stated:

> *"Regardless of the potential negative effect of financial relationships between auditors and their audit clients on auditor independence that might occur, I believe that this effect will be at the minimum level and will not seriously undermine auditor independence, especially, in the case of the big audit firms where most of the auditors place high importance on their independence to protect their hard-earned reputation and to deter the fear of litigation"* (EA 6).

Based on the above results, it seems that the overwhelming majority of the interviewees believed that financial relationships such as shareholdings, the receipt of interest free loans and unpaid audit and non-audit fees would undermine auditor independence due to the auditors' interest that might be created on the success and continuation of their audit clients' businesses.

8. 3. 9: Provision of (NAS) and interviewees' perceived auditor independence.

When interviewees were asked about how they would perceive the effect of the provision of (NAS) by auditors to their audit clients on auditor independence, mixed views were expressed (Appendix F, matrix 9). Some (25%) interviewees believed that as long as auditors confine themselves only to the task of providing advice and are not

involved in the decision-making process their independence will not be undermined. Moreover, some others believed that when auditors provide NAS to their audit client, their independence would be enhanced due to the more knowledge and experience that auditors would gain of their clients' systems and operations which in turn would put them in a strong position to deal with any potential disagreement with their clients' management. The following comments reveal some of the interviewees' thoughts regarding this issue:

> *"I think providing NAS by auditors to their audit clients will not undermine their independence as long as they avoid acting as decision makers because NAS are performed according to separate procedures and contracts with the audit client and have nothing to do with the audit work regardless of how much was its generated revenues. Also I think auditor independence could be more enhanced each time auditors provide successful advice because their clients would value them highly"* (IFA 5).

A similar opinion was expressed by one of the TBA interviewees when he stated:

> *"Provision of NAS by auditors to their audit clients in my opinion could enhance their independence because auditors by doing so will gain more knowledge and experience of their audit client's businesses which in turn would put them in a strong position to resist any potential pressure or intimidation from the client's management to influence their opinions"* (TBA 4).

Contrary to this viewpoint, the vast majority of the interviewees believed auditor independence is seriously undermined when auditors provide NAS to their audit clients (Appendix F, matrix 9). The main reasons for this opinion, according to the interviewees, were that auditors will try to maintain the respectively high NAS fees compared with audit fees (55%), the cosy relationships that might develop between auditors and their audit client's personnel (60%), and that often auditors audit their own work or that work which they have advised to be implemented (60%). Regarding this issue, some of the interviewees' responses are provided in the following comments:

> *"I think auditor independence could be seriously undermined when auditors provide NAS to their audit clients. This could be due to the sympathy that auditors would feel towards their audit clients that may develop as a result of comprehensive knowledge of their client's businesses which in many cases are the product of the auditors themselves"* (EA 2).

> *"Generally speaking, I think providing NAS to audit clients could enhance auditor independence, especially, if they were provided according to legal and obvious agreements, but unfortunately, most of the auditors in these days use NAS to increase their revenues and sometimes offer these services free of charge just to maintain*

current clients or to gain more clients. Definitely, I believe such practices will undermine auditor independence" (BLO 4).

"In general terms, I believe that providing NAS by auditors to their audit clients would not threaten auditor independence as long as they confined themselves only to the consultation process but unfortunately most auditors interfere in the decision making process. This situation puts the auditor in a position to audits his own advice which he wants always to be seen as useful and successful. Therefore, auditors might ignore or omit some or all of the financial statements' errors which he might believe were the product of his consultation" (TBA 1).

In the light of the above results, it could be argued that auditor independence was believed by the vast majority of the interviewees to be threatened when auditors provide NAS to their audit clients. This belief was justified on several grounds such as the sympathy that auditors would feel towards their audit clients that may develop as a result of comprehensive knowledge of their client's businesses, to maintain current clients or to gain more clients and, that, often, auditors audit their own work or that work which they have advised to be implemented.

8. 4: Interviewees' attitudes regarding the accounting and auditing profession and its related environment.

This section reports on the results of the last three questions of the interview guide (see Appendix C) those sought information about the attitudes of the interviewees from the four groups about the auditing and accounting profession and its related legal, professional and social environments in the Libyan context. The results of the collected qualitative data on these issues are presented as follows:

8. 4. 1: The accounting and auditing profession and its related regulations.

When interviewees were asked to express their opinions about whether they agree or disagree that Libyan laws include adequate and comprehensive rules and provisions to enhance and maintain auditor independence, a general agreement was indicated by almost all of (60%) the interviewees that Libyan laws contain some provisions to enhance and maintain auditor independence (Appendix F, matrix 10). The main problem, as the interviewees declared, however, is that even if such provisions and rules do exist, they are not actively and effectively implemented. Commenting on this issue. the following responses articulate some of the interviewees' thoughts:

"Despite the existence of some unclear and improper rules and provisions, I don't think that the Libyan laws contain the necessary comprehensive rules and provisions that could be adopted to penalise undisciplined auditors. As far as I am aware of, I have never heard of any incident where undisciplined auditors have been punished. The main reason for this is the lack of the supervising role that the Libyan Accountants and Auditors Association should perform" (EA3).

"Yes, I think there are some provisions and rules in the Libyan laws related to the auditing and accounting profession to maintain and enhance auditor independence but the problem is that these rules and provisions have never been implemented. For example, i have never heard of any actions taken against those auditors who do not adhere to the principles and procedures of the accounting and auditing profession" (IFA 3).

"I am not sure if the Libyan litigation system has any rules or provisions that could maintain and enhance auditor independence but the key issue is not the existence or the absence of such rules but the implementation of such regulations when needed. For instance, none of the auditing firms or their working staff in the Libyan context had faced any kind of punishment" (TBA 4).

It appears from the above interviewees' responses the Libyan litigation system was believed not to include adequate and comprehensive rules and provisions to enhance and maintain auditor independence and even if such rules and provisions do exist. the obvious lack of actively and effectively implementing such litigation creates a real threatening environment that could undermine auditor independence.

8. 4. 2: The accounting and auditing profession and its status in the Libyan society.

Similar views were expressed by the vast majority (80%) of the interviewees when asked their opinion of how they perceive the status of the accounting and auditing profession in general and auditors in particular in terms of publicity, income and respect among other professions such as engineering, law and medicine in the Libyan society (Appendix F, matrix 11). A general belief was expressed that the accounting and auditing profession in general and auditors in particular are enjoying a reasonable level of respect and status in Libyan society, especially, in the last few years. According to the interviewees, this was due to the huge changes that the political, social and economic Libyan systems have witnessed during the last two decades. Some of interviewees' thoughts that illustrate this belief are presented as follows:

"I think in the light of the dramatic changes that the Libyan society currently is witnessing in all aspects of life, an increasing acknowledgment of the importance of the auditing and accounting profession in general and auditors in particular and their role in the society is created. Thus, I believe in these days auditors are more known,

respected and well remunerated than they used to be a few years ago compared to other professions such as medicine, engineering and law" (TBA 4).

"I believe that the accounting and auditing profession in general and auditors in particular did not enjoy sufficient status and respect in Libyan society many years ago due to the lack of information about their role in society and to the dominating political and economic environment which supported the state sector ownership philosophy. In the last few years however, the economic environment witnessed dramatic changes which resulted in the increase of the private sector's role which in turn increased the need for the services of the accounting and auditing profession. Libyan society started to recognise and consider the important role of the accounting and auditing profession in terms of status, respect and income compared to other professions such as engineering, law and medicine" (IFA 2).

"Most of those who have connections in one way or another with the business and economic environment possess a reasonable knowledge of the accounting and auditing profession's role and they highly respect and value their role in the society. Nevertheless, a great portion of the ordinary people in the Libyan society are still unfamiliar and ignorant of the profession and its vital role compared to other professions such as engineering, law and medicine. This lack of knowledge, I believe, is due to the lack of knowledge of the profession especially in the light of the previous economic circumstances" (BLO 1).

On contrast to above, some (20%) of the interviewees have different opinion (Appendix F, matrix 11). They think that the auditing and accounting profession in general and auditors in particular do not enjoy a reasonable status in the Libyan society and a great portion of the society still do not know what is the exact meaning of the accounting and auditing profession or its role in the society. Commenting of this issue, one of the EA interviewees stated:

"I do not think that the auditing and accounting profession in general and auditors in particular are enjoying a reasonable status in the Libyan society compared with other professions such as engineering, law and medicine. According to me and my colleagues' knowledge and experience, most of the Libyan people do not know what the accounting and auditing profession means or what its role is. I believe that this lack of knowledge could be attributed to the absence of the LAAA's role in introducing the accounting and auditing profession and its essential role in the economic and business activities to the society" (EA6).

In the light of the above analysis, and apart of a small minority of the EA interviewees, it seems that the overwhelming majority of the interviewees believed that the position of the accounting and auditing profession in general and auditors in particular in terms of publicity, income and respect is reasonably good compared with other professions in Libyan society.

8. 4. 3: The (LAAA) and its role in developing the accounting and auditing profession and in maintaining auditor independence.

The role that the (LAAA) is performing in developing the accounting and auditing profession and in maintaining auditor independence was believed by all (100%) of the interviewees to be neither adequate nor sufficient (Appendix F, matrix 12). The main reasons for the LAAA lack of performance, as the interviewees suggested, are due to: a) the shortage of professional and qualified accountants and auditors who develop themselves to perform such roles; b) the paucity of the LAAA's financial resources: and c) the absence of proper related laws that could support the LAAA in conducting its roles. The following comments explain the interviewees' thoughts about this issue:

> *"I think the only role that the LAAA is performing since its establishment in 1973 is the issue of new licences and collecting fees from its members for their membership. Other than this, the LAAA has never done anything which could be identified as real efforts to develop the accounting and auditing profession and to enhance auditor independence. This lack of the role of the LAAA could be attributable to different aspects such as the shortage of professional and qualified accountants and auditors, the paucity of the financial resources and the absence of proper related laws that could support the LAAA in conducting its roles"* (EA 4).

> *"I believe that the role of the LAAA in developing the accounting and auditing profession and supporting auditor independence, according to my naive knowledge of the auditing and accounting profession, and what we hear from others including auditors themselves, is insufficient due to several reasons such as the absence of qualified and specialised staff and a dearth of financial resources"* (BLO 2).

> *"According to my knowledge, I don't think that the LAAA is performing its role in developing the accounting and auditing profession and enhancing auditor independence as it should be. The failure to conduct any professional conferences and the absence of the professional principles and procedures that relate to the accounting and auditing practicing are clear examples of the inadequate role of the LAAA. I believe that this situation could be clown to different issues among them are its shortages of financial resources and its lack of qualified and knowledgeable accountants and auditors"* (IFA 1).

Based on the above results, it seems that the LAAA was believed by all of the interviewees not to be conducting the role in developing the accounting and auditing profession and maintaining auditor independence it should. This lack of LAAA role was attributed to several issues such as the shortage of professional and qualified accountants and auditors who could encourage themselves just to perform such roles, the scarcity of

its financial resources and the deficiency of related laws that could help the LAAA in performing its roles.

8. 5: Summary.

The results from the analysed data of the semi-structured interviewees were presented in this chapter. Interviewees were of similar profile, in terms of age, level of education and length of working experience as the respondents of the questionnaire.

The vast majority of the interviewees perceived small and sole practitioners to be less independent than big audit firms due to their dependence on one or few clients in generating their revenues and due to the personalised manner in which they approach the audit. Regarding the effect of audit firm tenure, most of the EA interviewees believed auditor independence to be enhanced due to the increased knowledge of the client's businesses as a result of lengthy tenure which will place the auditor in a strong position. Contrary to this, all other interviewees perceived auditor independence to be undermined owing to the negative effects of the cosy relationship that might develop between auditors and their client's personnel.

Competition between audit firms were perceived by all of the interviewees to undermine auditors independence due to the unhealthy behaviour and practice that some of the audit firms conduct in order to maintain their current clients or to gain new ones.

Concerning the auditors' dependence on their audit clients for generating their revenues, most interviewees perceived auditor independence to be undermined except for some of the EA interviewees who believed that auditor independence will not be affected due to the auditors' integrity, religious beliefs and their commitment to the standards and procedures of auditing.

Existence of an audit committee in the audit client's company was perceived by all of the interviewees to enhance auditor independence because it will provide auditors with protection against any potential disagreement with the audit client's management. In addition, they believed that auditors will try to perform their duties in a more responsible manner because of their work will be controlled and examined by such committees.

Apart from a small minority of the interviewees, the vast majority perceived auditor independence to be enhanced when the audit client is in the state sector or in a weak financial condition than when it is in the private sector or in a strong financial condition. This belief was due to reasons such as the way in which auditors being appointed, the dependence on clients for income and the cosy relationship that might develop between auditors and their clients.

Personal and financial relationships were perceived by all of the interviewees to undermine auditor independence especially in developing countries such as Libya where most of the economic transactions and business relationships seriously depend on such relationships.

Finally, mixed perceptions were expressed by the interviewees regarding the effect of the provision of NAS by auditors to their audit clients. The vast majority of the interviewees however, believed that auditor independence was undermined due to the high fees from providing such services compared with the normal audit fees. On the other hand, a small minority of the interviewees thought that auditor independence will not be affected as auditors do not take part in the decision-making process.

With regard to the interviewees' attitudes towards the accounting and auditing profession and its related environment in the Libyan context, the analysis of the qualitative data revealed that the Libyan legal system was believed not to include adequate and comprehensive rules and provisions to enhance and maintain auditor independence and even if such rules and provisions do exist, the obvious lack of actively and effectively implementing them creates a threatening environment that could undermine auditor independence. In addition, the overwhelming majority of the interviewees believed that the position of the accounting and auditing profession, in general, and auditors, in particular, in terms of publicity, income and respect is reasonably good compared with other professions such as engineering, law and medicine. Moreover, the LAAA was considered by all of the interviewees not to be conducting the role in developing the accounting and auditing profession and maintaining auditor independence it should be.

Finally, the analysis of the participants' responses from the four groups with respect to the last question in the interview guide (question No. 14), revealed that all the collected data was related to personal issues such as the expression of participants' interest in the study and its importance, and the questions were relevant and covered the issues related to the subject of the research (perceptions of auditor independence).

Chapter nine:

Discussion of the main findings of the questionnaire and interviews

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9. 0: Introduction.

This chapter aims to collate and analyse the main findings of the two data collection methods (self administrated questionnaire and semi- structured interviews) which were used in this study. In order to achieve this goal, the chapter is divided into three main sections. The first section presents a discussion of the main findings of the participants' perceptions relating to the effect of the nine selected factors on auditor independence. The second section assesses the participants' attitudes about the accounting and auditing profession and its related environment while the third section provides a brief summary of the chapter.

9. 1: Participants' perceptions of auditor independence.

This section provides analyses on the main findings of the research relating to the perceived effect of audit firm size, audit firm tenure, competition, auditors' economic dependence on their audit clients, audit committees, status and financial condition of the audit client, financial relationships, personal relationships and provision of (NAS) on auditor independence held by the participants from EA, IFA, TBA and BLO.

9. 1. 1: Audit firm size.

The size of an audit firm is considered in the accounting and auditing literature as one of the factors that might have an impact on perceptions of auditor independence. The survey results of this study indicated that auditor independence was perceived by most of the participants to be undermined when an audit is performed by a sole practitioner or by a small audit firm. On the other hand, the vast majority of the participants believed that auditor independence is enhanced when an audit is performed by a large audit firm or by a medium sized audit firm. These results are consistent with previous empirical research which indicated that sole practitioners and small firms were perceived to be less independent than medium and large audit firms (Gul, 1989; Lindsay, 1990; Gul, 1991;

Gwilliam and Kilcommins, 1998; Beattie et al, 1999; Tahinakis and Nicolaou, 2004; Abu Bakar et al, 2005; Alleyne et al, 2006 a; Awadallah, 2006). This result, however, is in contrast with previous results in the Libyan context where auditor independence was found not to be affected by the size of the audit firm (Almalhuf, 2003). This could be attributed to the huge changes that the Libyan economic and business environment have witnessed in the last few years where both audit firms and their audit clients increased in number and size. This environment may have influenced the participants' perceptions of the effect of the audit firm size on auditor independence.

The main reasons for this lack of confidence in sole practitioners and small audit firms, as suggested by the interviewees, were due to the belief that small audit firms are economically dependent on one or few clients for their income, have a personalised mode of client service and close relationships with their clients, and their lack of experienced and qualified staff prevent them providing a high quality audit. These views support those of Mautz and Sharaf (1961), Goldman and Barlev (1974), De Angelo (1981, b), Shockley (1982), Gul (1991) and Lennox (2005). For instance, Shockley (1982) and Gul (1991) contende that certain characteristics inherent in small audit practices may increase the danger of impaired independence, e. g. the nature of the typical small audit firm client or the tendency towards a more personal mode of service and close relationship with the audit client.

The results of the survey also indicated that participants from the four targeted groups achieved a general consensus on the perceived effect of the size of the audit firm on auditor independence. The results from the one way ANOVA test revealed that there were no statistically significant differences between the responses of the participants from the four groups regarding the perceived effect of an audit firm size on auditor independence.

9. 1. 2: Audit firm tenure.

Audit firm tenure, which is the length of the relationship between an auditor and a given audit client, has been recognised in the accounting and auditing literature as having an impact on auditor independence. The results of this research indicated that auditor

independence was believed by the participants from the four groups to be undermined when an audit firm has been auditing the client for 2 to 4 years, 5 to less than 10 years and for 10 years and over. In contrast, auditor independence was perceived to be enhanced when an audit firm has been auditing the client for less than 2 years. These results are consistent with several previous empirical research (although different time periods were tested in some of the previous studies) that investigated the influence of the audit firm tenure on perceptions of auditor independence (Schleifer and Shockley, 1990; Mousa, 1992; Teoh and Lim, 1996; Hussey and Lan, 2001; Hudaib, 2003; Tahinakis and Nicolaou, 2004; Abu Bakar et al, 2005; Alleyne et al, 2006 a). Most of these studies had shown that the longer an audit firm has worked for the same audit client, the less independent its auditors were perceived to be. In contrast, this result is not in line with a number of previous results such as St. Pier and Anderson (1984), Geiger and Raghunandan (2002), Almalhuf, (2003), Ghosh and Moon (2005). For example, Almalhuf, (2003) in the Libyan context concluded that auditor independence was not to be affected by audit firm tenure. Once again, this could be attributed to the enormous changes in the economic and business environment in the last few years where audit firms and their audit clients increased in number and size. This environment may have made the contractual relationship between audit firms and their audit clients more longer term which may influence the participants' perceptions of the effect of the audit firm tenure on auditor independence.

This lack of confidence in the independence of those auditors who have a lengthy tenure with their audit clients, as expressed by the interviewees, was due to the belief that long association between audit firms and their audit clients may lead to the development of an "over-cosy relationship" that could adversely affect auditor independence and reduce the reliability and quality of the audit. Similar thoughts were mentioned by Mautz and Sharaf (1961), Shockley (1982), Flint (1988) and Petty and Cuganesan (1996). For example, Flint (1988) contends that lengthy tenure in office may cause the auditor to develop "over-cosy relationships" as well as strong loyalty or emotional relationships with their clients, which could reach a stage where auditor independence is threatened. In the same vein, these concerns were raised by many professional bodies worldwide such as the ICAEW, IFAC, EFA and the APB. Regarding this issue, The Guide to

Professional Ethics Statement (GPES 1.201, Para 2.5) of the ICAEW (1997) recognised that long association between auditors and their clients may be perceived as a threat to auditor independence and recommended that auditors should avoid situations that may lead them to become over-influenced or to be too trusting of the client's directors and key personnel which could consequently lead to audit staff being too sympathetic to the client interest.

In order to protect auditor independence from the adverse effect of long audit firm tenure, audit firm rotation was suggested by some of the interviewees. This idea was previously recommended by many professional bodies. For instance, the Auditing Practices Board (APB, 2004) stated that UK audit engagement partners should rotate every five years and key audit partners should rotate every seven years. In addition, the EU directive (2004) also required mandatory rotation of auditors, and left the option for member states to require either a change of main audit partner dealing with an audited company every five years, if the same firm keeps the work, or a change of audit firm every seven years.

The survey results also revealed a general agreement among participants from the four groups on the perceived effect of three of four auditor-client relationships that sought to investigate the impact of audit firm tenure on perceptions of auditor independence. Only one situation, which describes a relationship where an audit firm has been auditing the client for less than 2 years, produced statistically significant differences between participants' responses. In particular, respondents from the IFA group showed more confidence in the independence of auditors than the other three groups when an audit firm has been auditing the client for less than 2 years.

9. 1. 3: Competition between audit firms.

Competition among audit firms has been recognised as one of the main factors that might have an adverse impact on auditor independence by many interested parties such as academics, practitioners, professional, and regulatory bodies. For instance, the Commission on Auditor Responsibilities (Cohen Commission 1978) reported that excessive competition appears to present an independence problem to the accounting

profession in the US when it noticed that the pressure to attract and maintain clients had adversely influenced the quality of audit performed. In line with this argument, the empirical results of this study indicated that auditor independence was perceived to be undermined in three of the four auditor-client relationships that examined the effect of competition on auditor independence. These were: when there is a high level of competition, when audit firms use audit fee discounting and low-balling to get or to keep audit clients and when budget pressures are imposed by an audit firm on its staff (i.e. inadequate time to do a proper audit). The only situation that was perceived to enhance auditor independence in this regard was when competition among audit firms is little. These results are compatible with many previous empirical studies which revealed that auditor independence was perceived to be weakened as the level of competition between audit firms increases (Lindsay, 1990; Gul, 1991, Beattie et al, 1999; Hudaib, 2003; Awadallah, 2006; Alleyne et al, 2006 a).

The main reasons for this perception, as explained by the interviewees, were due to several issues such as the absence of the role of the LAAA to organise and control accounting and auditing practices, a huge number of audit firms chasing a few large audit clients, the absence of related regulations and the shortage of qualified and experienced auditors. Such issues caused the interviewees' concerns that audit firms, in order to keep their current audit clients or to obtain new ones, might reduce the amount of audit work conducted or adopt less rigorous audit procedures. Similar thoughts were expressed by Shockley (1982) when he argued that auditor independence could be impaired if levels of competition in the audit market increase.

Although the vast majority of the interviewees believed that auditor independence would be negatively influenced by high level of competition, a small minority thought that most of the audit firms, especially the large ones, do highly regard the importance of their independence and are trying hard to maintain it by adopting rigorous procedures in order to protect their reputation. This view was inline with previous results such as Knapp (1985), Gul (1989) and Almalhuf, (2003). In addition, the results of the survey showed that there were statistically significant differences between the responses of the participants from the four groups regarding the perceived effect of the four auditor-client relationships that sought to examine the influence of competition between audit firms on

auditor independence. More specifically, when there is a high level of competition among audit firms, when audit firms use audit fee discounting and low-balling to obtain or to keep audit clients and when budget pressures are imposed by an audit firm on its staff the EA group showed less concern about auditor independence than the other three groups while when there is little competition among audit firms the TBA group expressed more confidence in auditor independence than the other three groups.

9. 1. 4: Economic dependence on the audit client.

It has been argued in the accounting and auditing literature that auditors' economic dependence will be very significant and may harm their independence if the percentage or income that auditors receive from one or few clients is very high. For example, Mautz and Sharaf (1961) contend that independence could be impaired if auditors were economically dependent upon clients for their income. The empirical results of this study showed that auditor independence was perceived to be undermined when auditors dependent heavily on their audit clients. This result is compatible with many previous empirical studies that sought to investigate the perceived effect on auditor independence when auditors depend on their audit client (Gul, 1991; Mousa, 1992: Gul and Tsui, 1992; Bartlett, 1993; Teoh and Lim, 1996; Beattie et al, 1999; Geiger and Rama, 2003; Hudaib, 2003; Alleyne et al, 2006 a).

The key reasons for this view, as revealed by the interviewees, were due to the belief that auditors' dependence on one or few clients will place them at the mercy of their audit clients who feel that they are acting as the provider of the auditors' income and preventing them from bankruptcy. This point of view was previously expressed by many academics (Mautz and Sharaf, 1961; Flint, 1988; Markelevich et al, 2005; Hoitash et al, 2007) who considered that auditors' economic dependence on their audit clients could seriously damage their independence. For instance, Flint (1988) argued that if an audit firm's major source of income was provided by one client, the audit firm could face serious financial consequences. Furthermore, Hoitash et al (2007) contend that large fees paid to auditors that make them economically dependent on their clients may induce a relationship whereby the auditor becomes reluctant to make appropriate inquiries during the audit for fear of losing those fees.

In addition to the above academics, several professional bodies (i. e. AICPA, APB, IFAC) have drawn attention to the threat of economic dependence on auditor independence. In this respect, the APB (2004) stated that an audit firm is deemed to be economically dependent on a listed or non-listed audit client if the total fees for audit and all other services from that client and its subsidiaries which are audited by the audit firm represent 10% for listed clients and 15% for non-listed clients of the total fees of the audit firm. Similarly, the IFAC (2005) emphasised that a self-interest threat could be created due to the concern of the possibility of losing the client when the total fees generated by that client represent a large proportion of a firm's total fees.

With regard to the different perceptions of auditor independence between the four groups relating to the three auditor-client relationships which examined the effect of auditors' economic dependence on their audit clients on independence, the survey results revealed that there was no consensus among the responses of the participants from the four groups. In particular, the responses of the EA group significantly differed from the other three groups indicating less threat to auditor independence when an audit firm's profitability depends on the retention of a specific audit client, when more than 10% of total firm's audit fees revenues were from one client and when an audit firm's desire is not to lose status by losing a key client.

9. 1. 5: Audit committees.

The existence of an audit committee in the audit client's company has been considered in the accounting and auditing literature to have a positive impact on auditor independence. The survey results of the current study indicated that nearly all of the participants perceived auditor independence to be enhanced when an audit committee composed of competent non-executive directors existed in the audit client's company. This result is compatible with several previous studies that aimed to investigate the perceived impact of audit committees on auditor independence (Jackson-Heard, 1987; Schleifer and Shockley, 1990; Teoh and Lim, 1996; Beattie et al, 1999; Carcello and Neal, 2003; Abu Bakar et al, 2005).

This perception, as suggested by most of the interviewees, was due to the participants' belief that the existence of an audit committee will provide the auditors with the required protection that they need when being threatened by the audit clients' management in disagreement situations. In addition, they believed that auditors would feel that there is another effective and qualified party rather than the shareholders that could review and examine their performance. According to the interviewees, this would make auditors adopt more rigorous procedures when performing their audits. These thoughts were previously outlined by many authors (Goldman and Barlev, 1974; Green, 1994; Pomeranz, 1997; Arens et al, 2003). For example, Goldman and Barlev (1974) argue that if audit committees were established to deal with the selection of audit firms, the negotiation of fees, and matters relating to the auditor's replacement, the power of the client's management over the auditor would be limited. In the same vein, Pomeranz (1997) contended that auditor independence could be enhanced by a good link between the entire board of directors and the external auditor with the use of an audit committee. Furthermore, Arens et al (2003) contend that an audit committee opens up for the external auditor a direct channel of communication with the board to discuss audit progress and findings and helps resolve conflicts between him and client's management.

In line with these arguments, many professional committees emphasised the crucial role that audit committees could perform in enhancing auditor independence. For example, the Cadbury Committee (1992) stated that the position of the auditor would be strengthened by providing a channel of communication and forum for issues of concern and a framework within which the external auditor can assert his independence in the event of a dispute with management and recommended in its 1992 Code of Best Practice that all listed companies establish an audit committee, composed of non-executive directors, a majority of whom are independent. Similar opinions were expressed in the Sarbanes-Oxley Act (SOX, 2002) when stated that:

> *"The audit committee of each issuer, in its capacity as a committee of the board of directors, shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work".*

To enable an audit committee to perform its role in an active and efficient manner, most of the interviewees emphasised the importance of the independence and competence of the audit committee's non-executive members. This result supports the argument of Carcello and Neal (2003) which states that audit committees whose members are more independent, have more governance expertise, more financial expertise, and own less of the company's stock, will be likely to support the external auditor when auditor-client disagreement arises. In addition, the results of the survey showed that there was a consensus among the responses of the participants when an audit committee existing in the audit client's company. Conversely, there was no consensus between them when there was no audit committee in the audit client's company. In particular, the EA group perceived less threat to auditor independence when there was no audit committee in the audit client's company than the other three groups.

9. 1. 6: The status and financial condition of the audit client.

It has been suggested in the literature that the status and financial condition of the audit client has an influence on auditor independence. Regarding this issue, the empirical results of this study showed that auditor independence was perceived to be more enhanced when the audit client is in the state sector or when it is in a weak financial condition than when the audit client is in the private sector or in a strong financial condition. This result is consistent with many previous empirical studies that investigated the impact of the status and financial condition of the audit client on auditor independence (Knapp, 1985; Beatie et al, 1999; Hudaib and Cooke, 2005; Abdul Nasser et al, 2006).

According to the interviewees, such perceptions are due to several aspects including the proper and fair appointment procedures that the state audit clients adopt when contracting with auditors, auditors' fear of litigation if they fail to conduct their audits in a professional and proper manner in the case when clients are in the state sector or in weak financial conditions and the audit firms desire to maintain the current and potential revenues when clients are from the private sector or in good financial conditions. These thoughts were previously expressed by many academics. For instance, Hudaib and Cook (2005) contend that large audit clients who are in good

financial condition are less likely to receive a qualified audit report because of their ability to pay more audit fees than smaller clients that give them better bargaining power. In addition, Francis and Wilson (1988) argue that audit clients who are insolvent or are in a poor financial condition are more likely to seek auditors having high independence to enhance the confidence of shareholders and creditors as well as to lower the risk of litigation.

In contrast, a small minority of the interviewees had a different opinion believing that auditor independence would not be affected whether the audit client is in the state sector or in the private sector or if the financial condition of the client is strong or weak. This finding was compatible with a number of previous empirical studies (Gul, 1989; Gorman and Ansong, 1998; Alleyne et al, 2006 a). The findings of the survey also revealed that there was no consensus among the participants from the four groups with respect to the effect of three of four auditor-client relationships that investigated the impact of the financial condition and status of the audit client on auditor independence. In particular, the BLO group were less confident of auditor independence than the other three groups when the audit client is in the private sector or in a strong financial condition while the IFA group expressed more confidence in auditor independence than the other three groups when the audit client is in a weak financial condition. The only auditor-client relationship that produced a consensus among the participants' responses from the four groups was when the audit client is in the state sector.

9. 1. 7: Personal relationships.

Personal relationships between auditors and their audit clients such as family, friendship and employment relationships have been suggested in the accounting and auditing literature as having an adverse impact on auditor independence. For instance, Flint (1988) argues that if an auditor-client personal relationship were developed, auditors' mental attitudes, judgments or opinions might be influenced and independence would be lost, if not in reality, the appearance of the auditors' independence will be questioned by other interested parties. In line with this opinion, the empirical results of this study showed that such personal relationships between auditors and their audit clients were perceived by the vast majority of the respondents to be undermining auditor

independence. This finding is also consistent with several prior studies that examined the influence of personal relationships on auditor independence (Lindsay et al, 1987; Schleifer and Shockley, 1990; Mousa, 1992; Kilcommins, 1997; Hudaib, 2003: Umar and Anandarjan, 2004).

The harm that personal relationships between auditors and their audit clients could cause to auditor independence, as outlined by the interviewees, derived from the over-cosy relationship between auditors and their audit clients leading to auditors reducing their professional detachment and objectivity. Also these relationships (family, friendship and employment relationships) were perceived as potential influences on auditors' mental attitudes and opinions that may cause others to perceive them as not being independent. Several authors have drawn attention to the threat that such relationships could have on auditor independence. For example, Beasley et al (2000) argue that audit firms might be less likely to conduct an appropriate audit after an ex-auditor joins the audit client's management team because the remaining members of the audit team may be reluctant to question a former audit colleague who is now responsible for the audit, and the ex-auditor's knowledge of the audit firm's plans and strategies enables him to design a misstatement that is unlikely to be discovered by his former audit firm.

The issue of personal relationships between auditors and their clients was also acknowledged by many professional bodies (i.e. AICPA, SEC, ICAEW and the IFAC). In this context, the IFAC (2005) stated that threats to auditor independence may be created when an immediate family member of the audit client is a director, an officer or an employee of the client and in a position to exert direct and significant authority over the preparation of financial statements. In addition, the IFAC (2005) warned that close relationships between auditors and members of the audit client other than immediate or close family members (e.g. director, an officer or an employee) may create threats to auditor independence.

The survey findings also revealed that there was no consensus among the responses of participants from the four groups with respect to the three auditor-client relationships that sought to investigate the effect of personal relationships on auditor independence. More specifically, the participants from the EA group were less concerned on auditor

independence than respondents from the other three groups when an audit client's financial director was previously employed by the audit firm, when one of the client's executive directors is a close friend of one of the audit team and when one of the client's executive directors is a brother of one of the audit team.

9. 1. 8: Financial relationships.

Financial relationships between auditors and their audit clients other than audit fees such as shareholdings, the receipt of interest free loans and overdue audit and non-audit fees have been recognised in the accounting and auditing literature as possible threats to auditor independence. The results of this study revealed that auditor independence was perceived by the participants from the four groups to be undermined when such auditor-client relationships existed. This result is compatible with many previous empirical studies that investigated the impact of financial relationships between auditors and their audit clients (Mousa, 1992; Bartlett, 1993; Beattie et al, 1999; Hudaib, 2003; Alleyne et al, 2006 a). The main reason for this belief, as expressed by the interviewees, was due to the strong bond between auditors and their audit clients that could be developed which prevent auditors from objectively auditing their clients' financial statements. This is because such relationships make auditors think that they have an interest in the success and continuation of their audit clients' businesses. According to this view, auditors might tolerate misrepresentations in some of their clients' financial statements and not adopt rigorous procedures when conducting such audits. This result however, was not in line with Lindsay et al (1987). In this study, auditor independence was found not to be affected by financial relationships between auditors and their audit clients. This could be ascribed to culture differences between the Libyan society and the Canadian society which might have affected the perceived impact of financial relationships between auditors and their audit clients on auditor independence.

This threat of financial relationships between auditors and their audit clients other than audit fees on auditor independence was recognised by several professional bodies worldwide. For example, in the UK the APB (2004) acknowledged that auditor's objectivity and independence could be threatened due to the existence of financial relationships between auditors and their audit clients and consequently prevented audit

firms, any partner or members of the audit firm who are able to influence the conduct and outcome of the audit, and any immediate family member of such persons from holding any direct or "material" indirect financial interest in the audit client or in an affiliate of an audit client. In the same vein, the IFAC (2005) adopted similar provisions to that of the APB and prohibited auditors or their immediate family members from evolving any direct or "material" indirect financial relationship with the audit client.

The empirical results of this study, however, indicated that there was no consensus among the participants' responses in two of the three auditor-client relationships which sought to examine the impact of financial relationships between auditors and their audit clients on auditor independence. In particular, when an audit firm has unpaid audit and non-audit fees from the previous years, respondents from the EA group were less concerned about auditor independence than the other three groups, whereas, respondents from the IFA group showed more concern than the other participants about auditor independence when an auditor in an audit firm has received an interest free loan from an audit client.

9. 1. 9: Provision of (NAS).

It has been argued in the accounting and auditing literature that among all the identified factors that might threaten perceptions of auditor independence is the provision of NAS by auditors to their audit clients. The results of this study indicated that most of the participants from the four groups believed that auditor independence was undermined when auditors provide NAS to their audit clients. This result is compatible with many previous empirical studies that aimed to examine the influence of the provision of NAS on auditor independence (Knapp, 1985; Jackson-Heard, 1987; Lindsay et al, 1990; Bartlett, 1993; Teoh and Lim, 1996; Beattie et al, 1999; Canning and Gwilliam, 1999; Hussey and Lan, 2001; Sharma and Sidhu, 2001; Hudaib, 2003; Tahinakis and Nicolaou, 2004; Abu Bakar et al, 2005; Quick and Rasmussen, 2005; Awadallah, 2006; Alleyne et al, 2006 a).

The main reasons for this opinion, as outlined by the interviewees, were that auditors will try to maintain the respectively high NAS fees compared with audit fees, the cosy

relationships that might develop between auditors and their audit client's personnel, and that often auditors audit their own work or that work which they have advised to be implemented. These were previously expressed by several academics (Mautz and Sharaf, 1961; Shockley, 1982; Flint, 1988; Clikeman, 1998; Firth, 2002; Quick and Rasmussen, 2005; Soltani, 2007). In relation to this issue, Mautz and Sharaf (1961) argue that audit firms by providing NAS to their audit clients impair auditor independence because giving advice and decision making cannot be separated and the auditor who provides NAS cannot avoid participation in management decisions. Similar concerns were expressed by Firth (2002) when he contended that the provision of NAS to an audit client will increase auditor's economic dependence on that client. As a result, a decrease in auditor independence or a perception of a lack of independence will occur. He stated that the auditor will be reluctant to adversely report on items that are the result of, or partly the result of, his/her consultancy advice.

In addition to these academics, several professional bodies (i.e. AICPA, SEC, ICAEW, the EU Directive and the IFAC) shared similar concerns when they argued that the provision of both services (auditing and NAS) by audit firms to their audit clients can create a conflict of interest that might undermine auditor independence. For instance, in the UK, the APB (2004) emphasised that a threat to auditor's objectivity and independence arises due to the provision of NAS by audit firms to their audit clients and recommended that audit firms should not undertake any engagement to provide NAS where auditors would place significant reliance up on those NAS as part of the audit of the client's financial statements. The threat to auditor independence due to the provision of NAS has led some countries such as Japan, France, Belgium, Italy and Kenya to prohibit auditors from supplying NAS to their audit clients.

On the other hand, a small minority of the participants believed that the provision of NAS will not impair auditor independence as long as auditors confined their provision of NAS to advice and are not involved in the final decision-making process of the audit client. Moreover, they believed that auditor independence would be enhanced if auditors provide NAS to their audit clients. These results are consistent with several previous empirical studies (Lindsay et al, 1987; Gorman and Ansong, 1998; Defond et al, 2002; Almalhuf, 2003; Geiger and Rama, 2003; Umar and Anandarajan, 2004). The positive

effect of the provision of NAS on auditor independence, as suggested by the interviewees of the current study, was due to the greater knowledge and experience that auditors would gain about their clients' systems and operations which in turn would put them in a strong position to deal with any potential disagreement with their clients' management. Similar thoughts were previously mentioned by many authors (Higgins, 1962; Carey and Doherty, 1966; Goldman and Barlev, 1974; Grout et al, 1994; Arrunada, 1999; Hussey and Lan, 2001; Defond et al, 2002). For example, Arrunada (1999) argue that the provision of NAS by auditors to their audit clients reduces total costs, increases technical competence and motivates more intense competition and it does not necessarily impair auditor independence or the quality of NAS. Furthermore, he contended that the provision of such services can in fact enhance professional judgement through the increased familiarity the auditor will have with the client's business.

In addition, the survey results revealed that there was no consensus among the responses of the participants from the four groups on the perceptions of auditor independence with regard to three of the four auditor-client relationships that sought to investigate the effect of provision of NAS on auditor independence. In particular, the respondents from the EA group expressed more confidence in auditor independence than the other three groups when an audit firm does not provide any kind of NAS to its audit clients while they showed less concern about auditor independence than the other three groups when an audit firm's fees from NAS are 100% or more of audit fees. The results also showed that participants from the BLO group perceived less threat to auditor independence than the other three groups when an audit firm's fees from NAS are 25% to 49 % of audit fees. The only situation that produced consensus among the responses of the participants from the four groups on the perceptions of auditor independence was when an audit firm's fees from NAS are 50% to 99% of audit fees.

In general, it seems that the results of this study to a great extent are in line with previous research with regard to the perceived effect of the nine selected factors on auditor independence. Regarding the significant differences[1] of perceptions of auditor

[1] - In many cases statistically significantly differences among groups resulted despite basic agreement (disagreement) of all groups on the effect of addressed auditor-client relationships on auditor independence. This

independence among the participants from the four groups, it appears that the respondents from the EA group perceived less threat to auditor independence than the other three groups in auditor-client relationships perceived to be as a threat to auditor independence. On the other hand, they showed more confidence in auditor independence than the other three groups in auditor-client relationships which were perceived to be as enhancing auditor independence. This could be attributed partly to the different perspectives of each group. Usually external auditors perceive themselves as qualified professional practitioners who can protect and maintain their independence from being affected by any kind of auditor-client relationship. In this regard, Beattie et al (1999) contend that due to their greater understanding of the investigated issues and the strong influence of professional norms on their beliefs, auditors are likely to exhibit greater confidence in their independence than are other interested parties. Empirically speaking, this result is consistent with the findings of other research (Bartlett, 1993; Lindsay et al, 1987; Beattie et al, 1999). For example, Beattie et al (1999) found that external auditors perceived less threat to auditor independence compared to the other participants of their study (users of financial statements).

9. 2: Participants' attitudes about the auditing and accounting profession and its related environments.

The purpose of this section is to analyse the key findings of the research relating to the attitudes of the participants about the accounting and auditing profession and its related environment in the Libyan context.

With respect to the related regulations to the accounting and auditing profession, it has been suggested that in many developing countries accounting and auditing practices are directly regulated. The major influence on accounting and auditing practices in Libya has come from several regulations such as the Libyan Commercial Code, Income Tax Law, Petroleum Law, the Accounting and Auditing Profession Law. The survey results of this study indicated that a great portion of the respondents from the four groups disagreed that rules and regulations in the Libyan laws include comprehensive

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was caused by situations where one group perceived auditor independence to be seriously undermined (seriously enhanced) while all other groups perceived auditor independence to be slightly undermined (slightly enhanced)

provisions that could enhance and maintain auditor independence. This opinion is consistent with previous research on Libya, where rules and regulations in the Libyan laws were seen as not containing the specific and detailed provisions necessary to help developing accounting and auditing practices and maintaining auditor independence (Kilani, 1988; Mousa, 1992; Buzied 1998; Almalhuf, 2003; Ahmed, 2004). For instance, Buzied (1998) concluded that only little details on the form and design of the accounting records have been given attention in most of the accounting and auditing related Libyan laws and the principles and standards that should be adopted when practising the accounting and auditing profession were not specified. Furthermore, Mousa (1992) concluded that Libyan regulations are deficient in many provisions and rules that could contribute to develop the accounting and auditing profession and increase the level of auditor independence in Libya. Similar results were reached by Almalhuf (2003) when he found that 37% of the participants of his study disagreed with a statement saying that Libyan laws included objective rules and provisions that could protect and enhance auditor independence.

Similarly, a general consensus was expressed by almost all of the interviewees that some of the Libyan laws contain few provisions to enhance and maintain auditor independence but the main problem, as the interviewees declared, however, is that even if such provisions and rules do exist, they are not actively and effectively implemented. The main reasons for this, as suggested by the interviewees, were due to the weakness of the LAAA to perform its role and to the strong financial and personal relationships that are dominant in Libyan society which creates a real threat to auditor independence. This result supports what Mousa (2005) had suggested when he mentioned that in addition to the small size and the limited authority of the LAAA, the lack of statutory or other governmental regulations requiring any form of corporation to have its financial statements examined and reported upon by an independent external auditor, are the main reasons for its weakness. In addition, Kilani (1988) contends that the appointment of external auditors in Libya depends to a great extent on social and family ties.

Regarding the status of the accounting and auditing profession in general and auditors in particular in the Libyan society, the survey results showed that the accounting and auditing profession in general and auditors in particular are perceived to enjoy

reasonable respect and status in Libyan society by the sample groups except for the EA group who perceived the opposite. This view was shared by nearly all of the interviewees who showed a general agreement that the accounting and auditing profession in general and auditors in particular are enjoying a reasonable level of respect and status in Libyan society, especially, in the last few years due to the huge changes that the political, social and economic systems have witnessed.

On the other hand, some of the EA interviewees had different opinions. They thought that the auditing and accounting profession in general and auditors in particular do not enjoy a reasonable status in the Libyan society compared with other professions such as engineering, law and medicine, and a great portion of the society still do not know what is the exact meaning of the accounting and auditing profession or its role in the society. This result is broadly in line with some previous research in the Libyan context. For example, Buzied (1998) concluded that the status and role of the accounting and auditing profession in Libya is not well recognised by the government or the public. Furthermore, he goes on to say that:

> *"The status of current accounting in Libya is that there is no comprehensive or authoritative set of accounting and auditing framework on which accounting in Libya can be developed, organised, controlled, and evaluated"* (Buzied, 1998: 168).

Considering the LAAA and its role in developing the accounting and auditing profession and in maintaining auditor independence, the survey results showed that the vast majority of the participants from the four groups disagreed that the LAAA plays an important role in either developing the accounting and auditing profession or in maintaining auditor independence. This result is broadly consistent with previous research in Libya where the LAAA was seen as not sufficiently and effectively performing its role. For instance, several remarkable points have been concluded by many researchers such as the failure to develop accounting and auditing standards or a code of ethics, its limited role in conducting effective research programmes and its weak professional control over accounting practices and policies, and the deficiencies in monitoring accounting education (Kilani, 1988; Bengharbia, 1989; Mahmud, 1997: Buzied, 1998; Ahmed, 2004). In this regard, Mahmud (1997) concludes that the

accounting profession in Libya is not in a position to influence the development of accounting practices in general and in oil and gas accounting in particular.

The main reasons for this limited role of the LAAA as suggested by the interviewees, were due to several issues such as the shortage of professional and qualified accountants and auditors who perform such roles, the paucity of the LAAA's financial resources and the absence of laws that could support the LAAA in conducting its roles. This result is consistent and gives support to the above findings that there is a lack of regulations which could help the LAAA in performing its role and achieving its objectives.

9. 3: Summary.

This chapter has provided analysis on the main findings of the questionnaires and interviews which were used to collect data related to the perceptions of the participants from the four groups with respect to the effect of the nine selected factors on auditor independence in addition to their attitudes about the accounting and auditing profession and its related environments in the Libyan context. In the light of the comparisons of the results of this study with other national and international research on auditor independence, it seems that they are compatible to a great extent. In particular, auditor independence was perceived by the participants of this study to be enhanced when an audit is performed by a big or medium audit firm, the existence of an audit committee in the audit client's company, the audit client is in the state sector or is in a weak financial condition and when the audit firm did not provide any kind of NAS to its audit clients.

On the other hand, auditor independence was perceived to be undermined in when an audit is performed by a sole practitioner or by a small audit firm, an audit firm audit the same audit client for a long period, competition exists between audit firms, auditors are economically dependent on their audit clients, the audit client is in the private sector or is in a strong financial condition, personal and financial relationships and when NAS were provided by the audit firm to its audit clients.

In addition, it was revealed that rules and regulations in the Libyan laws were seen as not including comprehensive provisions that could enhance and maintain auditor independence. The accounting and auditing profession in general and auditors in

particular were perceived to enjoy reasonable respect and status in Libyan society by the sample groups except for the EA group who perceived the opposite. Also the LAAA was considered to be not performing an important role in either developing the accounting and auditing profession or in maintaining auditor independence.

Chapter ten:

Summary and conclusion

Chapter ten:

Summary and conclusion

10. 0: Introduction.

The main aim of this chapter is to provide an overview of and a conclusion to the entire study. In order to achieve this broad aim, the chapter is divided into five sections. The first section provides an overview of the insights and discussions presented in the previous chapters. Section two presents a summary of the main findings of the empirical part of the study. The third section outlines the research implications and recommendations arising out of the literature review and the analysis undertaken following the field study. The contributions of the study to the auditing knowledge are illustrated in section four. Finally, the fifth section discusses the limitations of the study and provides suggestions for areas of future research.

10. 1: An overview of the study.

This study has focused on investigating perceptions of auditor independence in the Libyan context as held by four groups, namely, EA, IFA, TBA and BLO. Nine selected factors which were deemed in the accounting and auditing literature to have an impact on auditor independence were examined. These were audit firm size, audit firm tenure, competition between audit firms, auditors' economic dependence on their clients, audit committees, status and financial condition of the audit client, financial and personal relationships and the provision of (NAS). In addition to examining the perceived effect of the above factors on auditor independence, the study sought to investigate the attitudes of the participants on the accounting and auditing profession and its related environments in the Libyan context.

The study consisted of ten chapters. Chapter one addressed several issues including the identification of the area of study, research objectives and questions, the chosen research methodology and the structure of the research. There are several reasons for conducting this study. These include:

- The conflicting results that some of the studies have arrived at with respect to the effect of certain factors on the perceptions of auditor independence.
- Relying on either quantitative or qualitative approaches instead of using both of them.
- Most of the previous studies in the area of research were conducted in developed countries, whereas research in developing countries, among which is Libya, has received little attention.

In addition to the above reasons, to the best of researcher's knowledge, no similar study has been conducted in Libya. The Libyan accounting and auditing profession offers a valuable research context as it is dealing with an emerging developing market where tremendous changes in the social, political and economic systems are taking place. Furthermore, the findings of this study are pertinent in the light of the current debate about the role, regulation and quality of auditing services and concerns over the possible effect of the latest business scandals on auditor independence.

Chapter two presented a framework within which the study is going to be conducted. An overview of several aspects of the Libyan environment in relation to its geography, population, history, culture, political system, economic developments and accounting and auditing profession and the profession related regulations was outlined in this chapter. It was revealed that the Libyan economy was very poor and suffering from different problems before the discovery of oil in the late 1950's. A dramatic changes and ambitious development plans were undertaken by successive Libyan governments after the discovery of oil. Recently, the country is experiencing major changes in its socialist-oriented economy in order for it to become a more capitalist-oriented economy. With regard to the accounting and auditing profession in Libya, this chapter shows that the accounting and auditing profession is oriented towards those of the UK and the USA. This orientation was due to the impact of these two countries on the profession via oil companies, aid agencies, construction companies and accounting and auditing education systems. In addition, it has been found that a number of the accounting and auditing related regulations were issued a long time ago and that there is an urgent need for them to be updated.

Chapters three and four extensively reviewed the previous theoretical and empirical literature relating to the area of study. In particular, chapter three provided a review of the development, nature and the importance of auditor independence. Based on this review, it was found that the concept of auditor independence has evolved over the years through several stages in the history of the accounting and auditing profession which in turn has developed as a result of socio-economic changes. The need for auditor independence became an important issue in times where a separation of the management functions from the ownership developed, especially after the beginning of the industrial revolution in the late eighteenth century. The meaning of auditor independence is considered by the auditing professional bodies and researchers as having two separate dimensions, namely, 'Independence in fact' and 'Independence in appearance'. The former refers to the mental attitude of the auditor in terms of professional objectivity, while the latter refers to the public's perceptions of the auditor independence.

After a comprehensive review of the previous literature, chapter four presented the most significant factors which were considered to be relevant for the purpose of this study[1]. These included the size of the audit firm, tenure of the audit firm, competition among audit firms, auditors' economic dependence on their audit clients, audit committees, status and financial condition of the audit client, personal relationships, financial relationships and provision of (NAS). In this review, inconclusive results were found with regard to the perceived effect of the above factors on auditor independence. In particular, some studies had found a positive effect of certain factors on auditor independence while others found the same factors to have had a negative effect. In addition to these two contradicting results, other studies concluded that auditor independence was perceived not to be influenced by these same factors. In the light of these results, chapter four has concluded that auditor independence is still a contentious issue which need further investigation, especially, in a developing country such as Libya where research on this issue is very rare.

Chapter five described the research methodology. The two main paradigms, i.e. the Positivist and the Phenomenological, were illustrated in this chapter. In addition,

[1] - For more details of the main criteria which were considered for the selection of such factors, refer to chapter one.

descriptions of the three dominant research approaches (the quantitative approach, the qualitative approach and the mixed research approach) were provided. These descriptions included the meaning and purpose, and strengths and weaknesses of each approach. Moreover, questionnaires and interviews as the main methods of collecting primary data were outlined in terms of the design and the content of the questionnaire, interview development and procedures, piloting the questionnaire and the interview questions.

The chosen research methodology and the justification behind it are outlined in chapter six. This research has adopted both quantitative and qualitative methods (mixed research methodology) to enrich the research findings and to gain advantage from data triangulation. Questionnaires were used to measure perceptions of the participants from the four target groups with regard to the effect of the nine selected factors and the target groups' attitudes about the accounting and auditing profession and its related environment in the Libyan context. The main advantages of this method, as mentioned in chapter six, are: a) all completed responses could be collected within a short period of time; b) the quick clarification of any doubts that the respondents might have on any question; c) the opportunity for introducing the research topic and to motivate the respondents to offer their frank answers; d) administering questionnaires to a large number of individuals, is less expensive and consumes less time than interviewing; and e) it does not require as much skill to administer the questionnaire as to conduct interviews.

Copies of the questionnaires were personally distributed to randomly selected members of 300 external auditors, 200 auditors from the Institute of Financial Auditing, 125 auditors from the Taxation Board and 100 bank loan officers. An overall response rate of 57 % was achieved. To gain more in-depth understanding of perceptions and to confirm and clarify the findings derived from the questionnaire survey, 20 semi-structured interviews were conducted. These included 6 members of the EA group, 6 members of the IFA group, 4 members of the TBA group and 4 members of the BLO group. The field work was conducted in Libya over a period of three months from first of July to the end of September 2008. Three main analysis techniques where used in this study to produce the findings from the quantitative and qualitative data. These included

descriptive statistics, parametric tests such as the one-way analysis of variance (ANOVA) and Duncan post-hock comparison test, and content analysis.

Chapters seven and eight reported the findings of the two data collection methods (self administrated questionnaire and semi-structured interviews) which were used in this study. In particular, chapter seven presented the results from the analysed data from the questionnaire. These included results relating to part one, two and three of the questionnaire. In part one, participants were asked to provide some information about their background such as gender, age, and occupation. Part two of the questionnaire has comprised 31 statements, which describe different auditor-client relationships followed by a five-point Likert scale and designed to measure perceptions of the participants regarding the effect of the nine selected factors on auditor independence. The last part of the questionnaire tended to measure the attitudes of the participants about the auditing and accounting profession and its related environments in the Libyan context, whereas chapter eight illustrated the results derived from the analysis of the semi-structured interviewees. The interview guide of this study included 13 questions designed to gather information related to the participants of the study in terms of their background, their perceptions of the effect of the nine selected factors on auditor independence and their attitudes about the accounting and auditing profession and its related environments in the Libyan context.

Chapter nine covered a broad discussion on the main findings of the study relating to the perceptions of the participants from the four targeted groups with respect to the effect of the nine selected factors on auditor independence and to their attitudes about the accounting and auditing profession. Based on the comparisons of the results of this study with other previous research on auditor independence, it seems that they are in line to a great extent.

Chapter ten, the last chapter of this study, is an overview of the entire study, a summary of the research findings, the research recommendations, highlighting the study's potential contribution to the accounting and auditing profession and literature. Finally, the chapter explained the limitations of the study and suggested areas of future research.

10. 2: Summary of the main findings of the study.

This section provides a summary of the main findings of the research relating to three main issues. These are the background information of the participants in this study, the perceived effect of the nine selected factors on auditor independence and the attitudes about the accounting and auditing profession and its related legal, educational, social and economic environments held by the participants from the four targeted groups.

10. 2. 1: Background information.

The first part of the questionnaire and the first question of the interview guide were concerned with general information about the participants of the study such as their gender, age, level of education, subject of study and experience. Based on the analysis of data gathered from both the questionnaires and the interviews, it was found that the vast majority of participants in the current study were 30 years old and over, possessed high levels of education, specialised in accounting and were experienced enough to understand the purpose of the study and were able to participate in it in a responsible manner. Accordingly, the study concluded that the responses of participants from the four groups appeared to be authoritative.

10. 2. 2: Perceptions of auditor independence.

With regard to the perceived effect of the nine selected factors on auditor independence, different views were found to be held. In particular, when participants were asked to express their opinions on the effect of the size of an audit firm on auditor independence, sole practitioners and small audit firms were perceived to be less independent than medium and big audit firms. The main reasons for this belief, as suggested by the interviewees, were due to the dependence of the small audit firms on one or few clients in generating their revenues, the personalised manner in which they approach the audit and to their lack of expertise and inability to provide different kind of services.

An audit firm tenure was found to create a significant threat to auditor independence. The participants in the questionnaire perceived auditor independence to be undermined when an audit firm has the same audit client for a long period of time. This perception was similarly expressed by the interviewees when asked for their opinions on the

influence of an audit firm tenure on auditor independence. The interviewees believed that an extended auditor-client relationship could result in the auditor becoming cosy in his/her relationship with his/her client and this may make him/her become complacent in his/her audit performance or result in adopting less rigorous procedures. Although the vast majority of the interviewees held this view, a small minority of them thought that auditor independence could be enhanced due to the long relationship between auditors and their audit clients. They believed that a long period of audit firm tenure with the same audit client could be beneficial for both the audit firm and the audit client. They thought long audit firm tenure ensures that the auditor gains more knowledge of his client's business which puts him in a position to objectively conduct the audit.

Concerning the effect of competition between audit firms on auditor independence, it was concluded that a high level of competition between audit firms and related issues such as fee discounting (low-balling) and budget pressures to obtain or to keep audit clients are perceived as threats to auditor independence by the majority of the respondents to the questionnaire. Consistent with this result, the participants in the semi-structured interviews indicated several reasons why competition is perceived as undermining auditor independence. These included the failure of the LAAA to organise and control accounting and auditing practices, the large number of audit firms who are chasing a few large audit clients, the absence of related regulations and the shortage of experienced auditors, especially in small and new audit firms.

Regarding the impact of auditors' economic dependence on their audit clients, respondents to the questionnaire considered auditor independence to be undermined when auditors depend heavily on their audit clients for generating their income. Similar considerations were shared by the interviewees. The justification for this belief, as the interviewees suggested, is that dependence on just one or a few clients will place the auditor at the mercy of his/her client who will feel that it is acting as the chief provider of the auditor's income and preventing him/her from bankruptcy.

When an audit committee existed at an audit client, auditor independence was perceived by the sample groups to be enhanced. In contrast, auditor independence was perceived to be undermined if audit client does not have an audit committee. Compatible with this

view, the interviewees considered that the existence of an audit committee in an audit client would provide auditors with some of the protection that they may need when being threatened by the management of the audit client when there is a disagreement. In addition they believed that auditors would feel that there is another effective and qualified party rather than the shareholders that is able to review and oversee their performance. Accordingly, the interviewees thought this would make auditors adopt more thorough procedures when performing their audits. In order to obtain the most benefit from an audit committee, i. e. being effective and efficient, the vast majority of the interviewees emphasised the need for members of an audit committee to be qualified, knowledgeable, honest, and good religious believers.

With regard to the influence of the status and financial condition of the audit client, the results of the questionnaire demonstrated that auditor independence was considered to be undermined when the audit client is in the private sector or is in a strong financial condition. On the other hand, when the audit client is in the state sector or in a weak financial condition, auditor independence was perceived to be enhanced. The main reasons for this view, as expressed by the interviewees, were due to a number of issues. These include the proper and fair recruitment procedures that state audit clients adopt when contracting with auditors, auditors' fear of litigation if they fail to conduct their audits in a professional and proper manner (when their clients are from the state sector or in weak financial condition), and the desire of the audit firms to maintain the current and the potential revenues from clients who belong to the private sector or who are in good financial conditions. Despite these opinions, a small minority of interviewees believed that auditor independence is unaffected if the audit client is in the state sector or in the private sector or if the financial condition of the audit client is strong or weak.

Personal relationships between auditors and their audit clients such as family, friendship and employment were perceived by the participants in the questionnaire to undermine auditor independence. In particular, auditor independence was considered to be negatively influenced when an audit client's financial director was previously employed by the audit firm, when one of the audit client's executive directors is a close friend of one of the audit team and when one of the audit client's executive directors is a brother of one of the audit team. Similar thoughts were held by the interviewees of this study.

The interviewees' view is that such relationships could develop an over-cosy relationship between auditors and their audit clients that would result in auditors reducing their professional detachment and objectivity. Additionally, they considered these relationships as potential threats to influence auditors' mental attitudes and opinions that may cause others to perceive them as not being independent, especially in developing societies such as Libya where, as outlined by the interviewees, most of the business and economic transactions depend heavily on such personal relationships. Contrary to this view, some of the EA interviewees believed that such relationships would not affect auditor independence because auditors consider themselves to be professionals who conduct their work according to well established principles and procedures and are not susceptible to change their opinions just to please their clients.

As with personal relationships, financial relationships between auditors and their audit clients such as shareholdings, receipt of interest free loans and unpaid audit and non-audit fees were believed by the respondents of the questionnaire to harm auditor independence. This belief was shared by the interviewees who expressed that such relationships would create a strong relationship between auditors and their audit clients that could prevent auditors from objectively auditing the financial statements of their clients. These situations, as suggested by the interviewees, could make auditors think that they have an interest in the success and continuance of their audit clients' businesses. Thus, auditors might tolerate misrepresentations in their clients' financial statements or could fail to adopt proper procedures when performing such audits. Although most of the interviewees supported the above view, a small minority from the EA had a different opinion when they believed that most of the audit firms, highly place great importance on maintaining their independence, especially in of large ones.

Finally, the provision of NAS by auditors to their audit clients was perceived by the overwhelming majority of respondents to the questionnaire to have an adverse effect on auditor independence. In particular, when NAS are provided on the bases of different proportions of fees (25%, 50% and 100%) compared to audit fees, auditor independence was perceived to be undermined. The main reasons for this opinion, as outlined by the interviewees, were due to several reasons, such as auditors will try to maintain the respectively high NAS fees compared with audit fees, the cosy relationships that might

develop between auditors and audit client personnel and that often auditors audit their own work or work which they have advised to be implemented. On the other hand. auditor independence was perceived to be enhanced when NAS are not provided by auditors to their audit clients. As in some previous research, some interviewees in this study believed that as long as auditors confine themselves solely to the task of providing advice and are not involved in the decision-making process their independence will not be undermined. In addition, they argued that when auditors provide NAS to their audit clients, their independence would be enhanced due to the greater knowledge and experience that auditors would obtain of their clients' systems and operations which in turn would enable them to resolve any potential disagreement with their clients' management.

With regard to which of the 31 auditor-client relationships were perceived most to undermine or enhance auditor independence by the participants from the four groups. the results of this study revealed (see tables 7. 33 and 7. 34 in chapter seven section 7-2) that the first 5 of the 23 situations that were perceived as the most important undermining auditor independence (i.e., mean is less than 3) were when a partner or staff of an audit firm owns material shares in the audit client, fees from (NAS) are 100% or more of audit fees, one of the audit client's executive directors is a brother of one of the audit team, there is a high level of competition among audit firms exists and when an auditor has received an interest free loan from an audit client. On the other hand, the first four of the 9 situations that were perceived as the most important enhancing auditor independence (i.e., mean is more than 3) were when the audit firm does not provide any kind of (NAS) to its audit clients, the existence of an audit committee, being a big firm and when the audit client is in the state sector.

Considering the differences of perceptions of auditor independence among participants from the four groups relating to the 31 proxy auditor-client relationships that examined the effect of the selected nine generic factors on auditor independence, the results from the one way ANOVA test, as shown in table (10. 1), revealed that in 67 cases there were statistically significant differences among the responses of participants from the four groups. To gain more insight into which groups differ from which, a post-hoc comparison using a Duncan test was conducted in this study. Rank 1 as shown in table

(10. 1), shows that the greatest number of significant differences arise in relation to the responses of the EA and the IFA (15 cases) followed by the EA and both the TBA and the BLO (13 cases each). The position of the EA could be attributed to their greater knowledge of the accounting and auditing practices and its related factors that might create a threat to auditor independence than the other three groups. In addition, external auditors usually perceive themselves as qualified professional practitioners who can protect and maintain their independence unaffected by any kind of auditor-client relationship. The third ranking of the differences among the groups was that between the TBA and the BLO (10 cases) while the fourth ranking was that between IFA and TBA (9 cases) and finally, the least differences accrued between the IFA and the BLO (7 cases).

Rank 2 in table (10. 1) shows the factors that the groups differed most with. As can be seen, the largest significant different between the groups occurred on their perception of the effect of competition between audit firms on auditor independence (14 cases) followed by the groups' perceptions regarding the effect of personal relationships on auditor independence. The third largest produced cases of differences between the four groups were reported for the perceived effect of the auditors' economic dependence on their audit clients. Based on the above results, it can be suggested, except for the factor of the size of the audit firm, that statistically significant differences occurred between the responses of the four groups regarding the perceived effect of the other eight factors (tenure of the audit firm, competition among audit firms, auditors' economic dependence on their audit clients, audit committees, status and financial condition of the audit client, personal relationships, financial relationships and provision of NAS).

Table (10. 1): Summary of the differences between the four groups from the questionnaire relating to the perceived effect of the nine selected factors on auditor independence.

Examined factors	No- of statements	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO	No – of significant cases	Rank 2
Size of the audit firm	4	0	0	0	0	0	0	0	**0**
Audit firm tenure	4	1	0	1	1	0	0	3	**3**
competition among audit firms	4	3	4	3	2	0	2	14	**1**
Auditors' economic dependence on their audit clients	3	3	1	3	2	0	2	11	**3**
An audit committee	2	0	1	1	1	1	0	4	**6**
The financial condition and status of the audit client	4	1	1	2	0	1	1	6	**5**
Personal relationships	3	3	3	3	1	1	2	13	**2**
Financial relationships	3	2	2	0	0	2	2	8	**4**
Provision of non-audit services (NAS)	4	2	1	0	2	2	1	8	**4**
Total	**31**	**15**	**13**	**13**	**9**	**7**	**10**	**67**	
Rank 1		**1**	**2**	**2**	**4**	**5**	**3**		

EA-IFA = external auditors and auditors from the Institute of Financial Auditing, EA-TBA = external auditors and auditors from the Taxation Board, EA- BLO = external auditors and Bank Loan Officers, IFA-TBA = auditors from the Institute of Financial Auditing and auditors from the Taxation Board, IFA-BLO = auditors from the Institute of Financial Auditing and Bank Loan Officers, and TBA-BLO = auditors from the Taxation Board and Bank Loan Officers.

10. 2. 3: Attitudes about the accounting and auditing profession.

The third part of the questionnaire and the last three questions of the interview guide sought to investigate the attitudes of the participants from the four targeted groups about the accounting and auditing profession and its related legal, educational, social and economic environments in the Libyan context. The results of this study revealed that the respondents to the questionnaire disagreed that rules and regulations in the Libyan laws include comprehensive provisions that enhance and maintain auditor independence. In line with this opinion, were the interviewees' points of view when they said that the Libyan litigation system is suffering from a shortage of adequate and comprehensive rules and provisions that could enhance and maintain auditor independence. Furthermore, they remarked that even if such rules and provisions do exist, the obvious failure to actively and effectively implementing such litigation creates threat to auditor independence.

With regard to the status of the accounting and auditing profession in general and auditors, in particular, in Libyan society, the results from the analysis of the responses to the questionnaire revealed that a general consensus among the participants, except for the EA group, was achieved that the accounting and auditing profession and auditors are enjoying a reasonable level of respect. In addition to their agreement with the questionnaire respondents' opinion, the interviewees believed that the changes that the Libyan political, social and economic systems have witnessed in the last few years, made the accounting and auditing profession and auditors enjoy this status and respect. Contrary to the above idea, some of the EA interviewees thought that the auditing and accounting profession, in general, and auditors, in particular, do not enjoy a reasonable status in Libyan society compared with other professions such as engineering, law and medicine. Furthermore, they went on to say that a great portion of Libyan society still does not understand what is meant by the accounting and auditing profession or what its role in Libyan society.

Finally, the LAAA was perceived by the participants of the questionnaire from the four groups as neither playing an important role in developing the accounting and auditing profession nor in maintaining auditor independence. The main reasons for this belief, as

expressed by the interviewees, were due to the shortage of professional and qualified accountants and auditors to perform such roles, the paucity of the LAAA's financial resources, and the absence of related laws that could support the LAAA in conducting its roles.

In addition to the above three main topics which were investigated by both the questionnaire and the interview guide, a number of other issues relating to the accounting and auditing profession and its environment were addressed in the questionnaire. The results from the analysed questionnaire data revealed that the sample groups believed that audit firms in Libya do not efficiently adhere to independence requirements. Moreover, approximately (45%) of the participants from the four sample groups considered the accounting and auditing profession does not efficiently fulfil its role in meeting the demands of its clients. Similarly, over half (52%) of the aggregate responses believed that the accounting and auditing curriculum in the Libyan education system is not sufficient to train auditors. Finally, almost all (99%) of the participants from the four sample groups agreed that auditor independence is very important in effectively and correctly auditing the financial statements of the audit client.

Considering the differences of attitudes about the above issues among participants from the four groups, the results from the one way ANOVA test, as shown in table (10. 2), revealed that 18 cases were produced as statistically significant differences among the responses of the participants. To gain more insight into which groups differ from which, a post-hoc comparison using a Duncan test was conducted in this study. Rank 1 in table (10. 2) shows that the greatest number of significant differences arise in relation to the responses of the EA and the BLO (5 cases) followed by the EA and TBA (4 cases). The position of the EA could be ascribed to their greater knowledge of the accounting and auditing profession and its related legal, education, social and economic environment in the Libyan context than the other three groups. The third ranking of the differences among the groups was reported on two occasions. These included that between the IFA and the BLO, and the TBA and the BLO (both reported 3 cases). The fourth ranking was that between the IFA and TBA (2 cases) and finally, the least differences occurred between the EA and the IFA (1 case).

Rank 2 in table (10. 2) shows which factors produced the most significant differences between the four groups. As can be seen, the largest significant difference between the groups related to their attitudes about the role that the LAAA is performing in developing the accounting and auditing profession and in maintaining auditor independence (4 cases). This was followed by their attitudes about the status of the accounting and auditing profession, in general, and auditors, in particular. and about the inclusion of comprehensive rules and provisions in Libyan regulations to enhance and maintain auditor independence (3 cases). Finally, the least produced differences recorded in two situations. These related to the participants' attitudes about the efficient adherence of the audit firms in Libya to independence requirements and to Auditor's independence is very important in effectively and correctly completing the audit process of the audit clients' financial statements (2 cases each). Notably, significant differences between the responses of the participants from the four groups were not reported in 2 of the 8 statements. These related to the fulfilment by the accounting and auditing profession of its role in meeting the demands of its clients and to the sufficiency of the accounting and auditing curriculum in the Libyan education system to train auditors. Based on the above results, it can be argued, except for statement 3-5 and 3-6 (see table 10.2), that significant differences occurred among the responses of the participants from the four groups relating to their attitudes about the Libyan accounting and auditing profession and its related environment in the Libyan context in the other five statements (see table 10. 2).

Table (10. 2): Summary of the differences between the four groups from the questionnaire relating to their attitudes about the accounting and auditing profession.

No. of statement	Statement	EA-IFA	EA-TBA	EA-BLO	IFA-TBA	IFA-BLO	TBA-BLO	No – of significant cases	Rank 2
3-1	Rules and regulations in Libyan laws include comprehensive provisions that enhance and maintain auditor independence.	0	0	1	0	1	1	3	2
3-2	Audit firms in Libya efficiently adhere to independence requirements.	0	1	1	0	0	0	2	3
3-3	The Libyan Accountants and Auditors Association play an important role in developing the accounting and auditing profession.	0	1	1	0	1	1	4	1
3-4	The Libyan Accountants and Auditors Association play an important role in maintaining auditor independence.	0	1	1	1	1	0	4	1
3-5	The accounting and auditing profession is efficiently fulfilling its role in meeting the demands of its clients.	0	0	0	0	0	0	0	0
3-6	The accounting and auditing curriculum in the Libyan education system is sufficient to train auditors.	0	0	0	0	0	0	0	0
3-7	The accounting and auditing profession, in general and auditors in particular, enjoy reasonable respect and status in Libyan society	1	1	1	0	0	0	3	2
3-8	Auditor's independence is very important in effectively and correctly completing the audit process of the audit clients' financial statements.	0	0	0	1	0	1	2	3
Total		1	4	5	2	3	3	18	
Rank 1		5	2	1	4	3	3		

EA-IFA = external auditors and auditors from the Institute of Financial Auditing, EA-TBA = external auditors and auditors from the Taxation Board, EA- BLO = external auditors and Bank Loan Officers, IFA-TBA = auditors from the Institute of Financial Auditing and auditors from the Taxation Board, IFA-BLO = auditors from the Institute of Financial Auditing and Bank Loan Officers, and TBA-BLO = auditors from the Taxation Board and Bank Loan Officers.

10. 3. The recommendations of the study.

Based on the adopted methodology (mixed research methodology) in this study which helped in illuminating and enlightening the issues under investigation, i. e. perceptions of auditor independence and attitudes about the accounting and auditing profession and its related environment, both the quantitative and qualitative findings revealed critical areas where efforts are needed to improve either perceptions of auditor independence or the attitudes about the accounting and auditing profession in the Libyan context. Therefore, it is very important that some of the study conclusions are expressed in terms of recommendations as follows:

1. To organise and coordinate the accounting and auditing practices, in general and to enhance auditor independence and, consequently improve audit quality in particular, more efforts urgently need to be taken by the Libyan Accountants and Auditors Association (LAAA) for developing accounting principles, auditing standards and professional ethics. In addition to these vital steps, the LAAA should closely control and supervise audit firms when performing their audit tasks in terms of their adherence to the requirements of auditor independence. Moreover, the LAAA should ensure that penalties and sanctions are taken against undisciplined and non-compliant auditors.

2. To increase the confidence of financial statement users and the general public in auditor independence and the auditing profession as a whole, sole practitioners and small audit firms should be encouraged to merge to form medium and larger audit firms which can provide high quality audit and accounting services. In doing so, audit firms' ability to resist any kind of pressure from the management of their audit clients which might impair their independence, would be increased.

3. The LAAA should consider the length of the period that audit firms are allowed to continue auditing the financial statements of their clients and that mandatory auditor rotation after a period of time (5–7 years) should be required as a safeguard to preserve and maintain auditor independence.

4. To improve the performance of corporate governance in enterprises and to preserve and enhance auditor independence, more emphasis has to be put on the issue of audit committees by parties such as the LAAA, government bodies and the Libyan stock market. Moreover, to achieve the maximum potential benefits from such committees, the importance of and the awareness of these committees should be raised among the various involved parties such as the shareholders, internal auditors, and the board of directors in order to gain their support and cooperation. In this regard, audit committees should be given the opportunity to oversee the recruitment process of the auditor and the conduct of the audit work. Also the audit committee should meet the auditor many times each year to discuss his work.

5. A move to restrict audit firms from providing non-audit services to their audit clients or at least defining these services more specifically in terms of what services that can/cannot be rendered should be taken by the LAAA. Such actions would be likely to reduce the frequency with which conflicts of interest take place and also enhance the ability of auditors to resist the pressure that their clients' management might impose on them to undermine their independence in disagreement situations.

6. The current accounting and auditing curriculum in the Libyan education system should be revised and updated to be appropriate to the training of auditors. This should be coordinated between academics and professional practitioners and linked to the practical realities of the accounting and auditing profession in order to provide current and prospective accountants and auditors with the required knowledge to effectively meet the demands of their clients. In addition, continuing training be conducted by the LAAA, universities and other specialised institutions to keep the members of the LAAA updated with the latest developments of the accounting and auditing profession, is very urgently needed. Furthermore, members of the LAAA should attend compulsory specified professional training programmes to maintain and enhance their ability to perform as qualified professional members of the accounting and auditing profession.

10. 4: The contribution of the study.

Based on the review of the relevant previous literature and the quantitative and qualitative findings of this research, this study has contributed towards the auditing literature in a number of ways.

Firstly, little previous research has been conducted on perceptions of auditor independence in developing countries. This study has contributed to the knowledge by providing updates on information with respect to perceptions of auditor independence in an Arabic developing country, namely, Libya. The results of this research have given support to other relevant studies by indicating that auditor independence was considered to be threatened most in several situations. These include when an audit is performed by a sole practitioner or by a small audit firm, an audit firm auditing the same audit client for a long period, there is a high level of competition between audit firms, auditors being economically dependent on their audit clients, the audit client is in the private sector or is in a strong financial condition, the existence of personal and financial relationships and when NAS are provided by auditors to their audit clients. On the other hand, auditor independence was believed to be enhanced in situations such as when an audit is performed by a medium or large sized audit firm, the existence of an audit committee in the audit client's company, the audit client is in the state sector or is in a weak financial condition and when (NAS) are not provided by auditors to their audit clients.

Secondly, this study has contributed to the Libyan accounting and auditing literature by providing the first detailed and comprehensive research on perceptions of auditor independence. The analysis of this study would provide a broad base for other researchers to build on. Furthermore, the findings of this study could be compared with other Arabic or developing countries who share similar socio-economic environments as well as with other developed countries.

Thirdly, this study has made a contribution to the literature by applying a mixed research methodology. By adopting and combining two methods of collecting data, i. e. self-administered questionnaires and semi-structured interviews, the study was able to highlight issues of concern in a way that added a new element to the research on perceptions of auditor independence. Studies that use only one method are more

vulnerable to mistakes linked to that particular method than studies that use multiple methods (triangulation) where different types of data provide cross-data validity checks, besides it can explore various aspects of the same topic by looking at it from different sides or angles.

Fourthly, the study has contributed to the literature by outlining a number of reasons why the accounting and auditing profession in Libya is still being considered as not enjoying a high professional status. Some of these reasons include the deficiency of the LAAA in performing its supposed role in developing the accounting and auditing profession and in protecting the interests of its members, the existence of unqualified practitioners, the complete absence of any kind of code of conduct for the accounting and auditing profession in the Libyan environment, the uncontrolled process of auditor recruitment and remuneration, and the ignorance and lack of knowledge among Libyan society about the accounting and auditing profession and its role.

Finally, the results of this study could be helpful to interested parties on auditor independence since they highlighted the most significant factors that were considered either to undermine or enhance auditor independence in the Libyan context. For example, Libyan academics, practitioners and any organisations that relate to the audit profession could benefit from these results when making or adjusting policies regarding the accounting and auditing profession in general and auditor independence in particular.

10. 4: The limitations of the study and avenues for future research.

Despite the fact that this study was theoretically and empirically conducted on a systematic basis under the supervision of a number of qualified supervisors and significant efforts were made to ensure that the objectives of the study were met and the research questions were answered, it might, as any other kind of research, suffer from some limitations. These limitations and the possible avenues of further areas of research to overcome them are outlined as follows:

1. It was indicated from the comprehensive review of the previous literature that few studies have been conducted on perceptions of auditor independence in the Libyan environment. Therefore, the study has based its literature review on

research performed in other countries, particularly, developed ones, together with a few in developing countries. This literature may not be relevant within the Libyan context. Thus, this study could be considered as a base for other research interested in examining the issue of independence in Libya or in any other country which shares a similar socio-economic environment.

2. The current study is restricted by the number of factors which were selected for investigation. Although nine factors were chosen for the purposes of this study, several other factors, i. e. flexibility of accounting standards, risks to auditors arising from a poor quality audit, regulations concerning the appointment and remunerations of auditors and regulatory rights and requirements surrounding auditor change, which have been examined in previous other research could also have an influence on perceptions of auditor independence. Thus, further research could be undertaken to assess the effect of these other factors on perceptions of auditor independence.

3. As auditor independence depends on the perceptions of several interested parties, the findings and conclusion of this study should be treated with a degree of caution because the study aimed to examine perceptions of only four groups, namely, EA, IFA, TBA and BLO. Therefore, the findings of this study may lack generalisation beyond these four groups. In the period of analysing the collected data, it was noticed that other interested groups such as financial analysts, financial directors and shareholders could have been included in the research. Consequently, further research could be conducted to investigate the perceptions of these other groups with regard to the issue under examination.

4. As the nature of this study was exploratory covering several issues, i. e. perceptions of auditor independence and attitudes about the accounting and auditing profession, future research could be limited to a few issues or even just one issue. For example, an in-depth investigation on the effect of NAS on perceptions of auditor independence may help in identifying more specifically what kind of NAS are currently provided by auditors to their audit clients and what is their impact on perceptions of auditor independence in particular and on

the public's attitudes towards the accounting and auditing profession in general in the Libyan context.

5. The results of this study may be valid only to the Libyan environment and may not be able to be extrapolated to other Arabic or developing countries due to cultural differences. Thus, it would be interesting to broaden the study to other countries with similar socio-economic environments.

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Appendixes

Appendix A: Table (A. 1): Summary of the previous research on auditor independence.

Study	Country	Methodology	Type of Response	Researched factors	Respondents	Response rate	D/I
Dykxhoora and Sinning (1982)	Germany	Quantitative. Questionnaire	Dichotomous response (I/NI)	27 separate situations relating to financial interest, NAS, family relationships, financial relationships and occupations with conflicting interests	directors of loan in main office (N= 110) in branch offices(N= 44) investment bank departments in main office (N = 110) in branch offices(N= 44)	45 % 14 % 28 % 0 %	No
Knapp (1985)	USA	Quantitative. Questionnaire (factorial design)	Scaled response	competition, nature of conflict issues, client's financial condition and NAS	Bank loan officers (N = 70)	61.4 %	No
Mckinley et al (1985)	USA	Quantitative. Questionnaire	Scaled response	audit firm type and size, and provision of NAS	Bank loan officers (N = 900)	29 %	Yes
Lindsay et al (1987)	Canada	Quantitative. Questionnaire	Dichotomous response (I/NI)	Provision of NAS, client size, financial interest, low-balling, gifts and discount, employment and family and financial relationships	auditors (N = 400) financial analysts and (N = 400) loan officers (N = 400)	38 %	No
Jackson-Heard (1987)	USA	Quantitative. Questionnaire experimental design	Scaled response	NAS, tenure audit firm size and audit committees	financial analysts (N = 100)	23 %	No
Gul (1989)	New Zealand	Quantitative. Questionnaire (factorial design)	Scaled response	audit firm size, audit committee existence, financial condition of the audit client, NAS, and competition	bank loan officers (n = 64)	76 %	yes
Lindsay (1990)	Canada	Quantitative. Questionnaire (factorial design)	Scaled response	NAS, extent of competition among audit firms, audit firm size and nature of the accounting issue	bank loan officers (n = 80)	68.75 %	No
Schleifer and Shockley (1990)	USA	Quantitative. (Questionnaire)	Scaled response	14 policies suggested in Cohen Commission re[ort relating to audit committees, employment, tenure, NAS, disclosure, competition	Big eight audit partners, non-Big eight auditors, bank loan officers and certified financial analysts (n = 72)	100 %	No
Gul (1991)	New Zealand	Quantitative. Questionnaire (factorial design)	Scaled response	Audit firm size, non-audit services, size of audit fee and competition	bank loan officers (n = 72)	67 %	yes
Agacer and Doupnick (1991)	USA, Germany Philippine	Quantitative. Questionnaire experimental design	Scaled response	Clint size, NAS, past due fees and personal relationships	USA accountants (n = 500) Germany accountants (n = 400) Philippines accountants (n = 200)	26.5 % 23 % 54 %	No
Gul and Tsui (1992)	Hong Kong	Quantitative. Questionnaire (factorial design)	Scaled response	the financial condition of the audit client, size of audit fees and audit tendering	Bank loan officers (N = 40)	95 %	No
Mousa (1992)	Libya	Quantitative. Questionnaire	Scaled response	Personal and financial relationships, NAS, audit fees and audit firm tenure	External auditor, state auditors Taxation Board auditors (n- 110)	40%	No
Bartlett (1993)	USA	Quantitative. Questionnaire	Scaled response	Size of fees, NAS, contingent fees, joint ventures with audit client and budget pressure	bank loan officers (n = 600)	40 %	yes
Teoh and Lim (1996)	Malaysia	Quantitative. Questionnaire (factorial design)	Scaled response	NAS, audit committee, rotation of audit firm, size of audit fees and disclosure of NAS	public accountants (n = 100) non-public accountants (n = 100)	69% 33%	No
Kilcommins (1997)	Ireland	Quantitative and qualitative. Questionnaire and semi-structured interviews	Scaled response	client employment, audit firm size, audit committees, audit market competition, audit tenure, and provision of non-audit services	corporate lenders, investment managers and financial analysts (n =196) 30 semi-structured interviews	75.5 %	Yes
Gwilliam and Kilcommins (1998)	Ireland	Quantitative and qualitative. Questionnaire and semi-structured interviews	Scaled response	audit firm size and audit committees	corporate lenders, investment managers and financial analysts (n = 196) 30 semi-structured interviews	75.5 %	yes
Gorman and Ansong (1998)	Canada	Quantitative. Questionnaire	Scaled response	Fees, ownership of client, personal relationships, client status and financial relationships	Auditors (n = 300)	31 %	no
Beattie et al (1999)	U K	Quantitative. Questionnaire	Scaled response	45 audit-client relationships relating to economic and regulatory factors	financial directors, audit partners and financial journalists (n = 657)	69 %	No
Canning and Gwilliam (1999)	Ireland	Quantitative and qualitative. Questionnaire and semi-structured interviews	Scaled response	provision of NAS	corporate lenders, investment managers and financial analysts (N =196) 30 semi-structured interviews	75.5 %	Yes

Study	Country	Methodology	Type of Response	Researched factors	Respondents	Response rate	D/I
Hussey and Lan (2001)	UK	Quantitative. Questionnaire	Scaled response	Provision of NAS, audit firm rotation, responsibility of issuing auditing standards	finance directors (N =3000)	25.9 %	No
Almalhuf (2003)	Libya	Quantitative. Questionnaire	Dichotomous response (yes/no)	Provision of NAS, audit firm size, audit firm tenure and competition	External auditor, state auditors Taxation Board auditors and bank loan officers(n- 145)	67%	No
Hudaib (2003)	Saudi Arabia	qualitative (unstructured interview)	Open ended questions	eighteen different auditor-client situation	auditors, shareholders, credit managers, investment analysts, fund managers, and government bodies (n = 43)	100 %	No
Tahinakis and Nicolaou (2004)	Greece	Quantitative. Questionnaire (factorial design)	Scaled response	size of audit firm, provision of NAS, competition and tenure	certified auditors, bank executives in loan decisions and financial analysts (N = 601)	24 %	No
Umar and Anandarajan (2004)	USA and Australia	Quantitative. Questionnaire experimental design	Scaled response	auditor's competitive environment, client's financial condition, provision of NAS, relative revenue contribution of the audit client and perception of the auditor's peers and superiors in the audit firm	USA's auditors (N = 151) Australian auditors (N = 171)	22.20 % 26.56 %	No
Abu Bakar et al (2005)	Malaysia	Quantitative. Questionnaire (factorial design)	Scaled response	audit firm size, competition level, tenure, size of audit fees, provision of non audit services and audit committee	bank loan officers (N = 240)	35.8 %	No
Quick and Rasmussen (2005)	Denmark	Quantitative. Questionnaire	Scaled response	provision of NAS	state authorized auditors, management directors, bank loan officers, privet shareholders and business journalists (N = 927)	52 %	No
Awadallah (2006)	Egypt	Quantitative. Questionnaire (factorial design)	Scaled response	provision of non audit services, level of competition among audit firms, size of audit firms and corporate governance structure in place	Auditors (N = 150)	70.66 %	No
Alleyne et al (2006)	Barbados	Quantitative. Questionnaire	Scaled response	39 audit-client relationships relating to economic and regulatory factors	auditors financial directors, credit managers, investment analysts, fund managers, shareholders, and government departments (N = 214)	Not mentioned	No

D/I: Definition of independence.
I/NI: Independent/ Not Independent.

Appendix B.: A questionnaire on perceptions of auditor independence

Liverpool John Moores University

Faculty of Business and Law

Business School

Perceptions of Libyan External Auditor Independence

Questionnaire

Dear Sir/Madam **Reference number (.....)**

Re: Study on perceptions of auditor independence in Libya.

I am a lecturer at Aljabel Algarbi University Faculty of Accountancy and I am currently conducting a study on perceptions of Libyan external auditors' independence at Liverpool John Moores University in England.

The main aim of this study is to provide additional empirical evidence relating to perceptions of external auditor independence, specifically, the study examines the effect of a number of selected factors on the perceptions of external auditor independence in Libya.

I should be grateful if you would cooperate with me in this study by completing the attached questionnaire. Your response would be of significance to the completion of this study. This should not take more than twenty five minutes of your time. I can assure you that all responses will be treated with complete confidentiality and will not be used for other than research process.

I hope you find completing the questionnaire enjoyable, and thank you for taking the time to help. If you have any queries or would like further information about this project, please feel free to contact:

Abdo Alhakim B Almalhuf
Te- 0927601866
E-mail. A.A.Almalhuf@2006.Ljmu.ac.uk

Thank you again for your kind cooperation in providing assistance.

Your sincerely

.....

Abdo Alhakim B Almalhuf PhD student

Introduction:

- Information about your opinions and perceptions are sought in this questionnaire.

-If possible, please respond to each question, but don't spend too much time on any one question.

Your first thoughts are usually your best.

-There are no wrong or right answers; it is your perceptions which are important.

Explanation of some of the terms that follow:

(You may wish to refer to these as you complete the questionnaire)

Auditor: External auditor who is working in the private audit firms that are legally allowed to audit the financial statements of companies.

Auditor independence: The auditor's ability to be, and to be seen to be, objective and unimpaired, i.e., free from bias towards any of the parties in relation to whom he is acting.

Size of the audit firm: Being a sole practitioner, small audit firm (less than three partners or up to 5 auditors), medium audit firm (three to five partners or up to 10 auditors), big audit firm (more than five partners over 10 auditors or a representative of one of the big four international audit firms).

Audit firm tenure: The length of time that an audit firm has been meeting the audit needs of a given client.

Competition: Competition is set at two levels; high and low. High level of competition refers to when the immediate audit market is characterised by a number of large audit firms that are aggressively pursuing expansion programmes in terms of increasing client number whereas, low competition refers to when there are few or no competing firms in the audit market.

Low balling: Setting audit fees below total current costs on initial audit engagements to get or keep the client.

Audit committee: This is a committee composed of non-executive directors whose role is to act as a proxy for shareholders in matters concerning the audit, including questions of appointment, remuneration and accountability of auditors.

Financial condition of the audit client : Financial condition of the audit client is described as strong and weak. Strong financial condition refers to when the firm's entire solvency and profitability ratios compare favourably to industry averages and the Net income has shown a modest but steady growth pattern over the last few years, whereas weak financial condition is the opposite.

Non audit services (NAS): Management services, computer services, investigation of significant acquisition, design and implementation of accounting systems, budget and inventory control systems, assist client in decisions about accounting for complex transactions, etc. provided by the audit firm.

Section one: General information.

Please answer by filling in or ticking as appropriate:

1 – Please tick to indicate your gender:

a) Male ☐ b) Female ☐

2 – Which of the following statements describe your job?

a) External auditor ☐ b) Auditor from the Institute of Financial Auditing ☐

c) Bank loan officer ☐ d) Taxation Board auditor ☐

f) Others (please state) .....

3 – Please tick one answer to indicate your age:

a) Under 30 years ☐ b) 30 to 39 years ☐

c) 40 to 49 years ☐ d) 50 years and over ☐

4 – Please tick one answer to indicate your highest education level achieved:

a) First university degree ☐ b) Masters Degree ☐

c) PhD ☐ d) Other ☐

If your answer is (d) Please specify: .....

5 – Was your subject of study?

a) Accounting ☐ b) Management ☐

c) Economics ☐ d) Others ☐

If your answer is (d) please give your subject of study

.....

6 – Pleas tick one answer to indicate your experience in your job:

a) Under 5 years ☐ b) 5 to 9 years ☐

c) 10 to 14 years ☐ d) 15 years and over ☐

Section two: Situations affecting auditor independence.

Questions in this part relates to auditor-client relationships, please indicate the extent to which of these situations in your personal opinion will affect auditor independence. Use the following scale to indicate the degree to which independence is undermined or enhanced in each situation by placing tick under your selects.

Seriously undermines independence.

Slightly undermines independence.

Neither undermines nor enhances independence.

Seriously enhances independence.

Slightly enhances independence.

No	The audit situation	Seriously undermines independence	Slightly undermines independence	neither	Slightly Enhances independence	Seriously Enhances independence
	Size of the Audit Firm.					
2-1	Being a sole practitioner.					
2-2	Being a small audit firm (less than 3 partners or up to 5 auditors)					
2-3	Being a medium firm (3 to 5 partners or up to 10 auditors)					
2-4	Being a big audit firm (more than 5 partners, over 10 auditors or a representative of one of the big four international audit firms).					
	The audit firm's tenure.					
2-5	If the audit firm has been auditing the client for less than 2 years.					
2-6	If the audit firm has been auditing the client for 2 to 4 years.					
2-7	If the audit firm has been auditing the client for 5 to 10 years.					
2-8	If the audit firm has been auditing the client for more than 10 years.					
	Competition within the external audit market:					
2-9	There is a high level of competition among audit firms.					
2-10	There is little competition among audit firms.					
2-11	There is audit fee discounting and low-balling to get or keep the client					
2-12	Budget pressures imposed by an audit firm on staff (i.e. need to spend less than adequate time to do a proper audit)					
	Economic dependence of the audit firm on the audit client.					
2-13	An audit firm's profitability depends on the retention of a specific audit client					
2-14	Greater than 10 % of total firm's audit fees revenues are from one client.					
2-15	An audit firm's desire is not to lose status by losing a key client					

	Audit committee	Seriously undermines independence	Slightly undermines independence	neither	Slightly Enhances independence	Seriously Enhances independence
2-16	Existence of an audit committee composed of competent .non-executive directors					
2-17	No existence of an audit committee.					
	Status and financial condition of the audit client:					
2-18	The audit client is in the state sector.					
2-19	The audit client is in the private sector.					
2-20	The audit client is in a strong financial condition.					
2-21	The audit client is in a weak financial condition.					
	Personal relationships					
2-22	If an audit client's financial director, was previously employed by the audit firm.					
2-23	If one of the audit client's executive directors is a close friend of one of the audit team.					
2-24	If one of the audit client's executive directors is a brother of one of the audit team.					
	Financial interest in the audit client:					
2-25	If there is unpaid audit and non-audit fees from the previous year s.					
2-26	If a partner or staffs of an audit firm owns material shares in the audit client.					
2-27	If an auditor in an audit firm has received an interest free loan from an audit client.					
	Provision of non-audit services (NAS)					
2-28	The audit firm does not provide any kind of non-audit services to its audit clients					
2-29	Fees from non-audit services are 25% to 49 % of audit fees.					
2-30	Fees from non-audit services are 50% to 99 % of audit fees.					
2-31	Fees from non-audit services are 100% or more of audit fees.					

Section three: Accounting and auditing related surrounding environments.

Questions in this part relate to your attitudes about the accounting and auditing profession and its related surrounding legal, social, economic and educational environments. Please indicate the extent to which you agree or disagree with the following statements. Use the following scale to indicate your point of view in each statement by ticking the appropriate response

Strongly disagree. Disagree. Neutral. Agree. Strongly agree.

No	The statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
3-1	Roles and regulations in Libyan laws include comprehensive provisions that enhance and maintain auditor independence.					
3-2	Audit firms in Libya efficiently adhere to independence requirements.					
3-3	The Libyan Accountants and Auditors Association plays an important role in developing the accounting and auditing profession.					
3-4	The Libyan Accountants and Auditors Association plays an important role in maintaining auditor independence.					
3-5	The accounting and auditing profession is efficiently fulfilling its role in meeting the demands of its clients.					
3-6	The accounting and auditing curriculum in the Libyan education system are sufficient to train auditors.					
3-7	the accounting and auditing profession in general and auditors in particular are enjoying a reasonable respect and statues in the Libyan society					
3-8	Auditor's independence is very important in affectively and correctly completing the audit process of the audit clients' financial statements.					

Section four:

If you have any other comments, please feel free to write them down in the space provided below or attach any extra sheets.

.....

.....

.....

Would you like to receive a summary of the findings, when available?

Yes ( ) No ( )

If your answer is yes, please provide the appropriate correspondence address.

.....

Thank you for completing this questionnaire

Appendix C: Perceptions' of Libyan external auditor independence: The interview questions.

The following range of questions was used during the interviews with the participants of this study.

1. Could you please tell us about yourself (e.g. age, level of education, experience, acceptation position. etc)?
2. Does the size of the audit firm affect auditor independence?
3. Do you think auditor independence would be affected if the auditor has been auditing the same client for a long time?
4. Does a high level of competition among auditors within the external audit market affect auditor independence?
5. Do you think that economic dependence of the auditor on one or a few audit clients for generating revenues might affect auditor independence?
6. What effects would the existence of an audit committee composed of non-executive directors have on auditor independence?
7. Does the status and financial condition of audit clients affect auditor independence?
8. Do personal relationships between auditors and their audit clients affect auditor independence?
9. Do financial relationships between auditors and their audit clients affect auditor independence?
10. What effects does the provision of non-audit services (NAS) by auditors to their audit clients have on auditor independence?
11. Do you think that roles and regulations in Libyan laws include comprehensive provisions that could enhance and maintain auditor independence?
12. Do you think that the Accounting and Auditing Profession in general and auditors in particular are enjoying a reasonable respect and statues in the Libyan society?
13. Do you think that the Libyan Accountants and Auditors Association plays an important role in maintaining auditor independence and developing the accounting and auditing profession?
14. Is there any thing else you would like to mention which has not been covered regarding the auditors' independence issue?

Thank you for answering the questions and be sure that your answers would be treated with complete confidentiality.

Appendix D: The Arabic version of the questionnaire.

بســــــــم اللـــه الرحمـــن الرحيـــــــــــــم

الأخ الكريـــــــــم:

تحية طيبة وبعد :

<u>الموضوع: دراسة حول استقلالية المراجع الخارجي في ليبيا:</u>

تقوم مهنة المراجعة الخارجية بأداء دور حيوي في الحياة الاقتصادية للمجتمعات من خلال ما يضيفه تقرير المراجع الخارجي من ثقة على القوائم المالية للمشروعات الاقتصادية الأمر الذي يساعد العديد من الأطراف في عملية اتخاذ القرارات الاقتصادية الرشيدة.

و بما أن استقلالية المراجع الخارجي تمثل حجر الأساس لمهنة المراجعة الخارجية ولتقرير المراجع , نقوم حالياً بإعداد دراسة حول استقلالية المراجع الخارجي في ليبيا وذلك لغرض الحصول على درجة الإجازة الدقيقة في المحاسبة بجامعة ليفربول ببريطانيا حيث تستهدف الدراسة اختبار مدى تأثير بعض العوامل في إدراك و معرفة استقلالية المراجع الخارجي المزاول لمهنة المراجعة في مكاتب المحاسبة والمراجعة بليبيا.

وإذ نلتمس من سيادتكم تخصيص جزء من وقتكم للمشاركة في استكمال هذه الدراسة من خلال إجابتكم على الأسئلة الواردة بالاستبيان المرفق ,نؤكد لكم مسبقاً بأن كافة الإجابات ستعالج بسرية تامة ولن تستخدم إلا في الأغراض العلمية فقط .

إن مساهمتكم معنا في إنجاح هذه الدراسة ضرورية ونحن نقدرها عالياً ونتقدم إليكم مسبقاً بالشكر الجزيل على تعاونكم معنا.

في حالة وجود أية ملاحظات أو استفسارات بخصوص هذه الدراسة او عن كيفية تعبئة الاستبيان فالرجاء الاتصال بنا على النحو الأتي:

عبد الحكيم الباشير الملهوف

هاتف رقم:

الالكتروني البريد : **E-Mail:** hakimzintany@yahoo.com

الباحث : عبد الحكيم الباشير الملهوف

استبيـــان حـــول فهـــم وإدراك استقلاليـــة المراجـــع الخارجـــي فـــي ليبيـــا

مقدمـــــــــــــة:

- الهدف من هذا الاستبيان هو معرفة وجهة نظرك حول استقلالية المراجع الخارجي في ليبيا.
- يرجى الإجابة على كافة الأسئلة مع ضرورة عدم استغراق وقت طويل في الإجابة على آي سؤال محدد (نتوقع أن تستغرق عملية الإجابة على الأسئلة 25 دقيقة من وقتك) .

شرح لبعـــض المصطلحات الواردة بالاستبيـــــــان:

المراجع: المقصود هو المراجع الخارجي المزاول لمهنة المراجعة الخارجية للقوائم المالية للمنشات الاقتصادية.

استقلالية المراجع الخارجي: تعني قدرة المراجع الخارجي على أن يكون موضوعياً ونزيهاً وان يكون قادراً على إظهار ذلك للآخرين , بمعنى أن لا يتحيز المراجع لأية جهة أو طرف له علاقة بمجال عملية المراجعة.

عميل, أو عملاء المراجعة: تعني المنشات الاقتصادية المختلفة التي يقوم المراجع الخارجي بمراجعتها سواء كانت منشات عامة أو خاصة.

حجم مكتب المراجعة: يقصد بحجم مكتب المراجعة من حيث عدد الشركاء أو عدد المراجعين العاملين بمكتب المراجعة وذلك على النحو الأتي: المراجع الممارس لمهنة المراجعة بصفة فردية, المكاتب الصغيرة (اقل من 3 شركاء, أو 5 مراجعين) , المكاتب المتوسطة (من 3 إلى اقل من 5 شركاء, أو10 مراجعين), المكاتب الكبيرة (أكثر من 5 شركاء, أو أكثر من 10 مراجعين او يكون ممثل لاحد شركات المراجعة الاربعة الكبار في العام).

استمرارية مكتب المراجعة: تعني استمرارية مكتب المراجعة في مراجعة القوائم المالية لمنشاة معينة لعدة سنوات متتالية.

المنافسة بين مكاتب المراجعة: حدد مستوى المنافسة بين مكاتب المراجعة على اساس مستوى عالى و منخفض. يشير المستوى العالي للمنافسة الى ان سوق المراجعة يتصف بوجود شركات مراجعة كبيرة تنافس بطريقة شديدة لاجل الحصول على العملاء, في حين يشير مستوى المنافسة المنخفض الى وجود او عدم وجود منافسة في سوق المراجعة.

تخفيض أتعاب المراجعة: تعني تحديد مكاتب المراجعة لأتعاب المراجعة بحيث تكون اقل من التكاليف الاجمالية المتوقعة وذلك من اجل الحصول على العملاء أو الاحتفاظ بهم .

لجنة المراجعة (لجنة المراقبة): تتكون هذه اللجنة من اعضاء غير تنفيذيين من ضمن اعضاء مجلس الإدارة وذلك للقيام بدور الوكيل أو النائب عن حملة الاسهم في مسائل تتعلق بعملية المراجعة الخارجية لحسابات المنشاة مثل , تعيين المراجع الخارجي وتحديد أتعابه و متابعة عمله .

الحالة المالية اللمنشاة عميلة المراجعة: حددة الحالة المالية لعميل المراجعة على اساس مستوى جيد ومستوى ضعيف. يشير المستوى الجيد الى ان معدلات المديونية والربحية للشركة جيدة مقارنة بمعدلات الصناعة وان الدخل قد حقق معدلات نمو ثابة خلال السنوات القليلة الماضية, في خين يشير المستوى الضعيف الى العكس.

الخدمات الاستشارية الأخرى: وهي جميع الخدمات الاخرى بخلاف عملية المراجعة الدورية للقوائم المالية وتشمل هذه الخدمات على سبيل المثال, الخدمات الادارية, تصميم وتركيب الانظمة المحاسبية وأنظمة الموازنات ومراقبة المخزون ,و المساعدة في محاسبة التبادلالت التجارية المعقدة و غيرها من الخدمات.

الجـــــزء الأول : معلـــومات عامـــــــــة .

الرجاء وضع علامة ( ) امام العبارة المناسبة التي تعبر عن اجابتك.

1) الجنس.

أ) ذكر ( ) ب) أنثى ( )

2) العمر.

أ) اقل من 30 سنة ( ) ب) من 30 الى 39 سنة ( )
ج) من 40 الى 49 سنة ( ) د) من 50 سنة وأكثر ( )

3) العمل الحالي.

أ) مراجع خارجي ( ) ب) مراجع بجهاز المراجعة المالية . ( )
ج) مراجع بادارة الضرائب ( ) د) مدير أو رئيس قسم الائتمان باحد المصارف . ( )

4) المستوى التعليمي .

أ) بكالوريوس ( ) ب) ماجستير ( )
ج) دكتوراه ( ) د) أخرى ( )

إذا كانت إجابتك (د) الرجاء ذكر نوع المؤهل .....

5) مجال التخصص.

أ) محاسبة ( ) ب) ادارة ( )
ج) اقتصاد ( ) د) اخرى ( )

إذا كانت إجابتك (د) الرجاء ذكر التخصص .....

6) الخبرة العملية

أ) اقل من 5 سنوات ( ) ب) من 5 الى 9 سنوات ( )
ج) من 10 الى 14 سنة ( ) د) من 15 سنة فأكثر ( )

الجزء الثـــــــــاني : بعض الحالات التي يمكن ان تؤثر في الاستقلالية .

تتعلق الأسئلة في هذا الجزء ببعض العلاقات بين المراجع الخارجي وعملائه (المنشات الاقتصادية). يرجى التكرم بتوضيح رايك الشخصي في كل حالة من الحالات الموضحة ادناه حول مدى تأثير هذه العلاقات في استقلالية المراجع الخارجي وذلك باستخدام المقياس التالي للإشارة إلى الدرجة التي تضعف أو تقوى بها استقلالية المراجع في كل حالة من الحالات الواردة لاحقاً بوضع علامة ( ) تحت المقياس الذي يمثل وجهة نظرك

- تضعف استقلالية المراجع بدرجة كبيرة
- تضعف استقلالية المراجع بدرجة بسيطة .
- لا يوجد تأثير في استقلالية المراجع
- تقوى استقلالية المراجع بدرجة بسيطة
- تقوى استقلالية المراجع بدرجة كبيرة

الرقم	الحـــالـــــــة	تضعف الاستقلالية بدرجة كبيرة	تضعف الاستقلالية بدرجة بسيطة	لا يوجد تاثير في الاستقلالية	تقوي الاستقلالية بدرجة بسيطة	تقوي الاستقلالية بدرجة كبيرة
	حجـــم مكتـــــب المراجعـــــة					
2-1	كون المراجع يقوم بعملية المراجعة بصفة فردية.					
2-2	كون مكتب المراجعة من ضمن المكاتب ذات الحجم الصغير. (اقل من 3 شركاء, أو اقل من 5 مراجعين)					
2-3	كون مكتب المراجعة من ضمن المكاتب ذات الحجم المتوسط. (من 3 إلى اقل من 5 شركاء, أو من 5 إلى اقل من 10 مراجعين)					
2-4	كون مكتب المراجعة من ضمن المكاتب ذات الحجم الكبير. (أكثر من 5 شركاء, أو أكثر من 10 مراجعين أو ممثل لاحد مكاتب المراجعة العالمية الكبرى)					
	استمراريـــــة مكـــــاتب المراجعـــــة					
2-5	في حالة قيام مكتب المراجعة بمراجعة القوائم المالية لأحد العملاء لأقل من سنتين متتاليتين					
2-6	في حالة قيام مكتب المراجعة بمراجعة القوائم المالية لأحد العملاء من سنتين إلى اقل من 5 سنوات متتالية					
2-7	في حالة قيام مكتب المراجعة بمراجعة القوائم المالية لأحد العملاء من 5 إلى اقل من 10 سنوات متتالية					
2-8	في حالة قيام مكتب المراجعة بمراجعة القوائم المالية لأحد العملاء لأكثر من 10 سنوات متتالية.					
	المنافسة بين مكاتب المراجعة للحصول على العملاء أو للاحتفاظ بهم					
2-9	وجود منافسة شديدة بين مكاتب المراجعة للحصول على العملاء أو للاحتفاظ به					
2-10	وجود منافسة بسيطة بين مكاتب المراجعة للحصول على العملاء أو للاحتفاظ بهم					
2-11	وجود ما يعرف بعملية تخفيض أتعاب المراجعة للحصول على العملاء أو للاحتفاظ بهم					
2-12	ممارسة ضغوط من قبل إدارة مكتب المراجعة على المراجعين لإتمام عملية المراجعة بأسرع وقت ممكن					
	الاعتماد الاقتصادي لمكاتب المراجعة على العملاء (المنشات الاقتصادية)					
2-13	يعتمد دخل مكتب المراجعة على الاحتفاظ بعميل مراجعة معين					
2-14	تصل إيرادات أتعاب المراجعة من عميل معين إلى أكثر من 10% من إجمالي إيرادات مكتب المراجعة					
2-15	رغبة مكتب المراجعة في المحافظة على مكانته و منزلته بين باقي مكاتب المراجعة من خلال الاحتفاظ بعميل مراجعة رئيسي ومهم					
	لجنـــة المراجعـــة بالمنشـات العميلـة (لجنـة المراقبـة)					
2-16	في حالة وجود لجنة مراجعة في المنشاة العميلة تتكون من أعضاء من مجلس الإدارة غير التنفيذيين والذين يتمتعون بخبرة وكفاءة عالية في الأمور المالية والإدارية					
2-17	في حالة عدم وجود لجنة مراجعة على الإطلاق					

	الصفة والحالة المالية والاقتصادية للمنشات عملاء المراجعة	تضعف الاستقلالية بدرجة كبيرة	تضعف الاستقلالية بدرجة بسيطة	لا يوجد تاثير في الاستقلالية	تقوي الاستقلالية بدرجة بسيطة	تقوي الاستقلالية بدرجة كبيرة
2-18	كون المنشاة تنتمي للقطاع العام					
2-19	كون المنشاة تنتمي للقطاع الخاص					
2-20	كون الحالة المالية والاقتصادية المنشاة العميلة جيدة					
2-21	كون الحالة المالية والاقتصادية المنشاة العميلة ضعيفة					
	العلاقـــــات الشخصيـة للمراجع من عملاء المراجعة					
2-22	في حالة كون احد المدراء التنفيذيين لإحدى المنشات كان في السابق يعمل مراجع بمكتب المراجعة الذي يقوم حاليا بمراجعة القوائم المالية لهذه الشركة					
2-23	في حالة ارتباط احد المراجعين بمكتب المراجعة بعلاقة صداقة قوية بالمدير المالي لإحدى المنشات عملاء المراجعة.					
2-24	في حالة ارتباط احد المراجعين بمكتب المراجعة بعلاقة قرابة من الدرجة الثانية (أخ) بالمدير المالي لإحدى المنشات عملاء المراجعة.					
	الاهتمامات المالية للمراجعين الخارجيين في المنشات العميلة					
2-25	في حالة وجود أتعاب مالية مستحقة على العميل من سنوات سابقة					
2-26	في حالة تملك احد المراجعين بمكتب المراجعة لقيمة كبيرة من أسهم إحدى الشركات العميلة					
2-27	في حالة حصول احد المراجعين بمكتب المراجعة على قرض خالي من الفوائد من إحدى المنشات العميلة.					
	تقديم الخدمـــــات الاستشاريـــــة الأخـــــرى					
2-28	لا يقوم مكتب المراجعة بتقديم أية خدمات استشارية أخرى لعملائه بخلاف عملية المراجعة					
2-29	تبلغ إيرادات أتعاب الخدمات الاستشارية الأخرى 25 % أو أكثر من إيرادات أتعاب المراجعة					
2-30	تبلغ إيرادات أتعاب الخدمات الاستشارية الأخرى 50% أو أكثر من إيرادات أتعاب المراجعة					
2-31	تبلغ إيرادات أتعاب الخدمات الاستشارية الأخرى 100% أو أكثر من إيرادات أتعاب المراجع					

الجزء الثالث: مهنة المحاسبة والمراجعة في ليبيا.

تتعلق الأسئلة في هذا الجزء بوجهة نظرك الشخصية حول مهنة المحاسبة والمراجعة في ليبيا فالرجاء توضيح مدى موافقتك أو عدم موافقتك للعبارات الواردة لاحقاً وذلك بوضع علامة ( ) تحت الاختيار المناسب لرأيك بواسطة استخدام المقياس الآتي:

ـ لا أوافق بشدة ـ لا أوافق ـ محايد ـ أوافق ـ أوافق بشدة .

الرقم	العبـــــــــارة	لا أوافق بشدة	لا أوافق	محايد	أوافق	أوافق بشدة
3-1	تتضمن اللوائح والقوانين المعمول بها في ليبيا مواد كافية لتعزيز استقلالية المراجع الخارجي والمحافظة عليها					
3-2	تلتزم مكاتب المحاسبة والمراجعة في ليبيا بمراعاة ضمان توافر شروط استقلالية المراجعين العاملين لديها.					
3-3	تقوم نقابة المحاسبين والمراجعين القانونيين في ليبيا بدور مهم في المحافظة على استقلالية المراجع الخارجي.					
3-4	تقوم نقابة المحاسبين والمراجعين القانونيين في ليبيا بدور مهم في تطوير مهنة المحاسبة والمراجعة.					
3-5	تلبي مهنة المحاسبة والمراجعة الخارجية في ليبيا بشكل كافي معظم متطلبات مختلف العملاء.					
3-6	توفر المناهج والمقررات الدراسية في النظام التعليمي بليبيا المعرفة والتدريب اللازم لتأهيل المحاسبين والمراجعين الخارجيين.					
3-7	تتمتع مهنة المحاسبة والمراجعة بشكل عام والمراجعين بشكل خاص بوضعية عالية نسبيا من حيث التقدير والاحترام.					
3-8	استقلالية المراجع الخارجي مهمة لضمان اتمام عملية المراجعة للقوائم المالية للمنشاءت بشكل صحيح.					

الجزء الرابع:

بإمكانك استخدام الفراغ المتاح في الأسفل أو بإرفاق أية أوراق إضافية للتعبير عن أية ملاحظات أخرى ترون أنها مناسبة فيما يتعلق بموضوع الدراسة

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ـ هل ترغب في الحصول على ملخص لنتائج الدراسة عندما تكون جاهزة .

أ) نعم ( ) ب) لا ( )

شكراً لكم على تعبئة الاستبيان

والســـلام عليكـــم ورحمـــة اللـــه وبركاتـــــه

الباحـث

عبدالحكيم الملهوف

Appendix E: The Arabic version of the interview guide questions

أسئلة المقابلة الشخصية

س1 – هل لك أن تحدثنا عن نفسك , منصبك , مستواك التعليمي , خبرتك العملية ,عدد الشركاء, عدد المراجعين , الخ .

س2 – هل يمكن في اعتقادك أن يؤثر حجم مكتب المراجعة في استقلالية المراجع الخارجي؟ كيف ؟

س3 – هل تعتقد أن استمرارية المراجع الخارجي في مراجعة القوائم المالية لمنشاة معينة لعدة سنوات متتالية يمكن أن يؤثر في استقلاليته ؟ كيف

س4 ؟ هل تعتقد أن مستوى المنافسة بين مكاتب المراجعة يمكن أن يؤثر في استقلالية المراجع الخارجي؟ كيف؟

س5 – هل تعتقد أن اعتماد المراجع الخارجي في تحقيق دخله على عميل أو عدد قليل من العملاء يمكن أن يؤثر في استقلاليته؟ كيف ؟

س6 – هل تعتقد أن لوجود أو عدم وجود لجنة مراجعة (لجنة مراقبة) مكونة من أعضاء غير تنفيذيين من أعضاء مجلس إدارة المنشات العميلة تأثير في استقلالية المراجع الخارجي ؟ كيف ؟

س7 – هل يمكن أن تتأثر استقلالية المراجع الخارجي نتيجة للهيئة أو الوضعية والحالة الاقتصادية للمنشات العميلة ؟ كيف ؟

س8 – هل تعتقد أن استقلالية المراجع الخارجي يمكن أن تتأثر نتيجة للعلاقات الشخصية للمراجع الخارجي مع عملائه ؟ كيف ؟

س9 – هل تعتقد أن استقلالية المراجع الخارجي يمكن أن تتأثر نتيجة للعلاقات المالية للمراجع الخارجي مع عملائه ؟ كيف ؟

س10 – هل تعتقد أن تقديم المراجع الخارجي للخدمات الاستشارية لعملائه بخلاف عملية المراجعة الدورية للقوائم المالية يمكن أن يؤثر في استقلاليته؟ كيف ؟

س 11_ هل تعتقد أن الإجراءات والعقوبات التأديبية في اللوائح والقوانين المعمول بها في ليبيا تجاه المراجعين غير الملتزمين بآداب وسلوك المهنة و بمعايير المراجعة تعد كافية ؟

س12 – هل تعتقد أن مهنة المحاسبة والمراجعة بشكل عام والمراجعين بشكل خاص يتمتعون بوضعية عالية نسبيا من حيث التقدير والاحترام والدخل في المجتمع الليبي ؟

س13 – هل تعتقد أن نقابة المحاسبين والمراجعين في ليبيا تقوم بأداء دور فعال في تطوير مهنة المحاسبة والمراجعة والمحافظة على استقلالية المراجع الخارجي؟

س14 – هل لديك أية أشيا أخري لها علاقة بموضوع استقلالية المراجع الخارجي ترى انه لم يتم الإشارة إليها وتريد أن تذكرها ؟

أشكرك بالتكرم بالإجابة على الأسئلة وتأكد بان كافة الإجابات سوف تعامل بسرية تامة ولن تستخدم إلا للأغراض العلمية فقط.

Appendix F. Interviewees' perceptions of auditor independence and their attitudes about the accounting and auditing profession.

Matrix 1: Audit firm size and perceptions of auditor independence.

Population group		a	b	c	d	e	f	g	h	I
EA 1										X
EA 2								X	X	
EA 3		X	X			X				
EA 4		X		X						
EA 5							X			
EA 6		X		X	X	X				
IFA 1		X	X		X	X				
IFA 2		X		X		X				
IFA 3		X	X			X	X			
IFA 4								X	X	
IFA 5		X		X		X				
IFA 6		X								
TBA 1		X	X		X					
TBA 2		X		X		X				
TBA 3								X	X	
TBA 4		X	X	X	X	X				
BLO 1								X		
BLO 2		X	X	X		X				
BLO 3		X		X	X					
BLO 4		X	X	X	X	X				
Total	No	**14**	**7**	**9**	**6**	**10**	**2**	**4**	**3**	**1**
	%	**70**	**35**	**45**	**30**	**50**	**10**	**20**	**15**	**5**

For more details, refer to codes on page 315.

Matrix 1: Audit firm size and perceptions of auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) More confidence in the independence of the medium and large audit firms than small and new audit firms.

b) Small audit firms are less independent than large audit firms because small firms are dependent on one or few clients for their income.

c) Small audit firms are less independent than large audit firms because small firms lack expertise to provide different types of services.

d) Small audit firms are less independent than large audit firms because small firms approach their duties in a personalised manner.

e) Large audit firms are more independent than small audit firms because large audit firms consider highly their reputation.

f) Our perception of auditor independence is not effected by the size of the audit firm.

g) Big audit firms are less independent than small audit firms because the former firms lack control over their branches.

h) Big audit firms are less independent than small audit firms because the former firms' desire to keep their income up to fixed level.

i) Auditor independence is not affected by the size of the audit firm because auditors are professional practitioners who work according to well determined procedures and standards.

Matrix 2: Audit firm tenure and perceptions of auditor independence.

Population group		a	b	c	d	e	f	g	h	i
EA 1		X	X	X	X					
EA 2		X	X	X	X					
EA 3						X	X	X		
EA 4						X	X		X	X
EA 5		X	X	X	X					
EA 6						X	X			
IFA 1						X	X	X	X	
IFA 2						X	X			
IFA 3						X	X	X		
IFA 4						X	X		X	X
IFA 5		X	X		X					
IFA 6						X	X		X	
TBA 1						X	X	X		X
TBA 2						X	X	X		X
TBA 3						X	X		X	
TBA 4						X	X		X	
BLO 1						X	X	X		
BLO 2						X	X			
BLO 3						X	X	X	X	
BLO 4						X	X	X		X
Total	No	**4**	**4**	**3**	**4**	**16**	**16**	**8**	**7**	**5**
	%	**20**	**20**	**15**	**20**	**80**	**80**	**40**	**35**	**25**

For more details, refer to codes on page 317.

Matrix 2: Audit firm tenure and perceptions of auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) Long audit firm tenure does not undermine auditor independence.

b) Long audit firm tenure ensures that auditors have good knowledge of their audit clients.

c) Long audit firm tenure makes auditors to become more valuable to their audit clients which give them more strength in disagreement situations.

d) Long audit firm tenure is favoured because it saves time and costs for both the auditor and his client.

e) Long audit firm does undermine auditor independence.

f) Long audit firm tenure may result in the development of a cosy relationship between auditors and their audit clients.

g) Long audit firm tenure may result in auditors become complacent in their performance.

h) Long audit firm tenure may result in auditors adopting less rigorous procedures.

i) Audit firm rotation should be implemented to prevent development of cosy relationships between auditors and their audit clients.

Matrix 3: Competition between audit firms and perceptions of auditor independence.

Population group		a	b	c	d	e	f	g	h	i
EA 1		X	X		X		X			
EA 2		X	X	X		X				
EA 3									X	X
EA 4		X	X		X			X		
EA 5		X		X		X	X			
EA 6									X	X
IFA 1		X	X	X			X			
IFA 2		X	X		X	X				
IFA 3		X		X		X	X			
IFA 4		X	X		X		X			
IFA 5									X	X
IFA 6		X	X	X	X	X	X			
TBA 1		X						X		
TBA 2		X	X			X	X			
TBA 3		X	X		X	X	X			
TBA 4		X		X	X	X				
BLO 1									X	X
BLO 2		X	X		X		X			
BLO 3		X		X		X				
BLO 4		X	X			X	X			
Total	No	**16**	**11**	**7**	**8**	**10**	**10**	**2**	**4**	**4**
	%	**80**	**55**	**35**	**40**	**50**	**50**	**10**	**20**	**20**

For more details, refer to codes on page 319.

Matrix 3: Competition between audit firms and perceptions of auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) High level of competition between audit firms undermines auditor independence.

b) High level of competition between audit firms undermines auditor independence due to the absence of the role of the LAAA in organising and controlling the auditing profession.

c) High level of competition between audit firms undermines auditor independence because there are a huge number of audit firms chasing a small number of large audit clients.

d) High level of competition between audit firms undermines auditor independence because there are no proper related regulations.

e) High level of competition between audit firms undermines auditor independence because the shortage of qualified auditors.

f) Small and new audit firms are more affected by competition than large audit firms.

g) Large audit firms are more affected by competition than small audit firms.

h) Competition would not affect auditor independence because audit firms fear litigation.

i) High level of competition does not affect audit firm independence because they consider high their independence and reputation.

Matrix 4: Auditors' economic dependence on their audit clients and perceptions of auditor independence.

Population group		a	b	c	d	e	f
EA 1		X	X	X			
EA 2					X	X	X
EA 3		X	X	X			
EA 4		X	X	X			
EA 5		X	X				
EA 6					X	X	X
IFA 1		X	X	X			
IFA 2		X	X				
IFA 3		X	X	X			
IFA 4		X		X			
IFA 5		X	X				
IFA 6		X	X	X			
TBA 1		X	X	X			
TBA 2					X	X	X
TBA 3		X	X	X			
TBA 4		X	X	X			
BLO 1		X	X				
BLO 2		X	X				
BLO 3		X	X	X			
BLO 4					X	X	X
Total	No	**16**	**15**	**11**	**4**	**4**	**4**
	%	**80**	**75**	**55**	**20**	**20**	**20**

For more details, refer to codes on page 321.

Matrix 4: Auditors' economic dependence on their audit clients and perceptions of auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) Auditors' economic dependence on one or few audit clients would undermine auditor independence.

b) Auditors' economic dependence on one or few audit clients would undermine auditor independence because it would place auditors under their clients' mercy.

c) Small and new audit firms would lose their independence more than large audit firms because they economically depend on one or few audit clients.

d) Large audit firms would not lose their independence because they have more audit clients than small and new audit firms to depend on.

e) Economic dependence on one or few clients would not undermine auditor independence.

f) Economic dependence on one or few clients would not undermine auditor independence because of the auditors' honesty, integrity and religious beliefs.

g) Economic dependence on one or few clients would not undermine auditor independence because of the auditors' commitment to the standards and procedures of the auditing profession.

Matrix 5: Audit committees and perceptions of auditor independence.

Population group		a	b	c	d	e	f
EA 1		X	X		X		X
EA 2		X	X		X		
EA 3		X	X	X		X	
EA 4		X	X				
EA 5		X	X		X		
EA 6		X	X		X		
IFA 1		X		X			
IFA 2		X		X	X	X	X
IFA 3		X	X	X			
IFA 4		X	X	X	X		
IFA 5		X	X	X			
IFA 6		X					
TBA 1		X	X	X	X	X	X
TBA 2		X		X			
TBA 3		X	X	X			
TBA 4		X	X	X			
BLO 1		X	X	X			
BLO 2		X		X	X	X	X
BLO 3		X	X		X	X	
BLO 4		X		X	X	X	
Total	No	**20**	**14**	**13**	**10**	**6**	**4**
	%	**100**	**70**	**65**	**50**	**30**	**20**

For more details, refer to codes on page 323.

Matrix 5: Audit committees and perceptions of auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) The existence of an audit committee in the audit client company would enhance auditor independence.

b) Audit committees would enhance auditor independence because they provide auditors with some kind of protection against the client's management.

c) Audit committees make auditors perform in responsible manner and adopt more rigorous procedures because of the oversight role of the audit committees.

d) Auditor committees would enhance auditor independence only if their members are qualified and knowledgeable.

e) Auditor committees would enhance auditor independence only if their members are honest and good religious believers.

f) Auditor committees would enhance auditor independence only if their members are independent.

Matrix 6: Status and financial condition of the audit client and perceptions of auditor independence.

Population group		a	b	c	d	e	f	g	h	i
EA 1										X
EA 2		X		X		X				
EA 3		X	X	X		X		X		
EA 4		X		X	X					
EA 5										X
EA 6		X		X		X				
IFA 1		X	X	X	X	X	X			
IFA 2		X	X		X			X		
IFA 3		X		X		X		X		
IFA 4		X	X		X			X		
IFA 5		X	X		X	X		X		
IFA 6		X	X	X		X				
TBA 1		X	X		X	X		X		
TBA 2		X	X		X	X		X		
TBA 3										X
TBA 4		X	X		X	X		X		
BLO 1		X	X	X		X		X		
BLO 2		X	X		X	X		X		
BLO 3		X	X	X		X		X		
BLO 4							X		X	
Total	No	**16**	**12**	**9**	**9**	**13**	**2**	**11**	**1**	**3**
	%	**80**	**60**	**45**	**45**	**65**	**10**	**55**	**5**	**15**

For more details, refer to codes on page 325.

Matrix 6: Status and financial condition of the audit client and perceptions of auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) Auditor independence would be enhanced if the audit client is from the state sector because of the proper and fair appointment of the auditor.

b) Auditor independence would be enhanced if the audit client is from the state sector because of the auditor fear of litigation.

c) Auditor independence would be enhanced if the audit client is in weak financial condition because of the auditor fear of litigation.

d) Auditor independence would be undermined if the audit client was from the private sector because of the auditor's desire not to lose current and potential fees.

e) Auditor independence would be undermined if the audit client was from the private sector because of the appointment procedures of auditors.

f) Auditor independence would be undermined if the audit client was from the state sector because of the strong pressure on auditor from the government.

g) Auditor independence would be undermined if the audit client was in good financial condition because of the auditor's desire not to lose current and potential fees.

h) Auditor independence would not be affected by the financial condition of the audit client.

i) Auditor independence would not be affected whether the audit client was from the state or the private sector or whether it was in good or weak financial condition.

Matrix 7: Personal relationships and perceptions of auditor independence.

Population group		a	b	c	d	e	f	g	h	i
EA 1									X	X
EA 2		X	X			X	X	X		
EA 3		X				X		X		
EA 4		X	X				X	X		
EA 5									X	X
EA 6		X	X		X		X			
IFA 1		X				X				
IFA 2		X	X	X	X	X				
IFA 3		X	X	X	X		X	X		
IFA 4		X		X		X		X		
IFA 5		X	X		X	X		X		
IFA 6									X	X
TBA 1		X	X	X	X	X	X	X		
TBA 2		X	X	X	X		X	X		
TBA 3		X				X	X			
TBA 4		X	X		X	X		X		
BLO 1		X	X	X		X		X		
BLO 2		X			X	X				
BLO 3		X	X	X	X	X	X	X		
BLO 4		X	X	X	X	X		X		
Total	No	**17**	**12**	**8**	**10**	**13**	**8**	**12**	**3**	**3**
	%	**85**	**60**	**40**	**50**	**65**	**40**	**60**	**15**	**15**

For more details, refer to codes on page 327.

Matrix 7: Personal relationships and perceptions of auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) Auditor independence would be undermined by personal relationships.

b) Auditor independence would be undermined by personal relationships because of the cosy relationship.

c) Personal relationships would result in auditors reducing their professional objectivity.

d) Personal relationships may influence auditors' mental attitudes and opinions.

e) Most of the economic activities in Libya are dependent on personal relationships and may undermine auditor independence.

f) Personal relationships would make outsiders to raise questions about the auditor independence.

g) Personal relationships may more undermine independence in the case of small and new audit firms than large ones.

h) Personal relationships would not undermine auditor independence.

i) Personal relationships would not undermine auditor independence because auditors are professional practitioners who highly evaluate and protect their reputations.

Matrix 8: Financial relationships and perceptions of auditor independence.

Population group		a	b	c	d	e	f	g
EA 1		X	X					X
EA 2		X	X	X		X		X
EA 3		X	X					
EA 4		X	X	X	X		X	X
EA 5			X			X		X
EA 6		X	X	X		X	X	
IFA 1		X	X	X	X			X
IFA 2		X	X			X		X
IFA 3		X	X		X			X
IFA 4		X	X	X		X	X	X
IFA 5		X	X	X	X		X	X
IFA 6		X	X	X		X	X	X
TBA 1		X	X		X			X
TBA 2		X	X	X		X	X	X
TBA 3		X	X			X	X	
TBA 4		X	X	X			X	X
BLO 1		X	X					
BLO 2		X	X		X	X		X
BLO 3		X	X	X			X	X
BLO 4		X	X		X	X		X
Total	No	**19**	**20**	**10**	**7**	**10**	**9**	**16**
	%	**95**	**100**	**50**	**35**	**50**	**45**	**80**

For more details, refer to codes on page 329.

Matrix 8: Financial relationships and perceptions of auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) Financial relationships would undermine auditor independence.

b) Financial relationships would create a strong connection that might undermine auditor independence.

c) Financial relationships would make auditor to feel that they have an interest in their clients' businesses.

d) Financial relationships would make auditors to perform in biased manner.

e) Financial relationships may more undermine independence in the case of small and new audit firms than large ones because large audit firms highly consider their reputation.

f) Financial relationships may more undermine independence in the case of small and new audit firms than large ones because large audit firms fear of litigation.

g) Most of the economic activities in Libya are dependent on financial relationships between auditors and their audit clients and may undermine auditor independence.

Matrix 9: Provision of NAS and perceptions of auditor independence.

Population group		a	b	c	d	e	f	g
EA 1		X	X	X	X			
EA 2							X	X
EA 3						X	X	X
EA 4		X	X	X	X			
EA 5						X	X	X
EA 6		X		X				
IFA 1						X	X	X
IFA 2						X	X	X
IFA 3						X	X	X
IFA 4						X	X	X
IFA 5		X	X		X			
IFA 6						X		X
TBA 1								X
TBA 2							X	X
TBA 3						X	X	X
TBA 4			X	X				
BLO 1		X				X	X	
BLO 2							X	X
BLO 3						X	X	X
BLO 4						X		
Total	No	**5**	**4**	**4**	**3**	**11**	**12**	**12**
	%	**25**	**20**	**20**	**15**	**55**	**60**	**60**

For more details, refer to codes on page 331.

Matrix 9: Provision of NAS and perceptions of auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) Provision of NAS would not undermine auditor independence as long as auditors do not involve in the decision making process.

b) Provision of NAS would enhance auditor independence.

c) Provision of NAS would enhance auditor independence because auditors would gain more knowledge and experience of their audit clients' systems.

d) Provision of NAS would not undermine independence because auditors provide these services according to special procedures which do not interfere with the audit work.

e) Provision of NAS would undermine auditor independence because auditors would try to maintain the NAS high fess compared with audit fees.

f) Provision of NAS would undermine auditor independence because of the developed cosy relationship between auditors and their audit client.

g) Provision of NAS would undermine auditor independence because auditors often audit their own work or the work which they have consulted to be implemented.

Matrix 10: The attitudes about the accounting and auditing profession and its related regulations.

Population group		a	b	c	d	e	f
EA 1						X	X
EA 2		X	X			X	
EA 3		X	X			X	
EA 4		X	X	X		X	
EA 5						X	X
EA 6		X	X	X		X	
IFA 1						X	X
IFA 2		X	X	X		X	
IFA 3		X		X		X	
IFA 4					X	X	
IFA 5		X	X	X		X	
IFA 6						X	X
TBA 1					X	X	
TBA 2		X	X	X		X	
TBA 3		X	X	X		X	
TBA 4					X	X	
BLO 1		X	X	X		X	
BLO 2		X	X			X	
BLO 3					X	X	
BLO 4		X	X			X	
Total	No	**12**	**11**	**8**	**4**	**20**	**4**
	%	**60**	**55**	**40**	**20**	**100**	**20**

For more details, refer to codes on page 333.

Matrix 10: The attitudes about the accounting and auditing profession and its related regulations.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board.

BLO: bank loan officers.

a) Libyan laws include some provisions and rules to enhance and maintain auditor independence.

b) Libyan laws include some provisions and rules to enhance and maintain auditor independence but they are not clear and obvious.

c) Libyan laws include some provisions and rules to enhance and maintain auditor independence but they have never been implemented.

d) Not sure if Libyan laws include some provisions and rules to enhance and maintain auditor independence.

e) Never heard of any actions against undisciplined auditors.

f) Libyan laws do not include provisions and rules to enhance and maintain auditor independence.

Matrix 11: The attitudes about the accounting and auditing profession and its status in the Libyan society.

Population group		a	b	c	d	e	f
EA 1		X		X	X	X	
EA 2		X		X	X	X	
EA 3		X		X	X	X	
EA 4			X	X			X
EA 5		X			X	X	
EA 6			X	X			X
IFA 1		X		X	X		
IFA 2		X		X	X		
IFA 3		X		X	X		
IFA 4		X		X	X	X	
IFA 5			X				X
IFA 6		X		X	X	X	
TBA 1		X		X	X	X	
TBA 2		X		X	X	X	
TBA 3		X		X	X	X	
TBA 4		X		X	X	X	
BLO 1		X		X		X	X
BLO 2		X			X	X	
BLO 3			X	X			X
BLO 4		X		X	X	X	
Total	No	**16**	**4**	**17**	**15**	**13**	**5**
	%	**80**	**20**	**85**	**75**	**65**	**25**

For more details, refer to codes on page 335.

Matrix 11: The attitudes about the accounting and auditing profession and its status in the Libyan society.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) The accounting and auditing profession in general and auditors in particular are enjoying a reasonable level of respect and status in Libyan society.

b) The accounting and auditing profession in general and auditors in particular are not enjoying a reasonable level of respect and status in Libyan society.

c) The accounting and auditing profession in general and auditors in particular are not enjoying a reasonable level of respect and status in Libyan society in the past because of the lake of their role.

d) The last dramatic changes in the Libyan society contributed to good respect and status of the profession and its members because of the increase of the need for the auditors' services in the society.

e) The accounting and auditing profession in general and auditors in particular are enjoying a reasonable level of respect and status among those who have knowledge of their role.

f) The accounting and auditing profession in general and auditors in particular are still unknown among ordinary people because the deficiency of the LAAA in performing its role.

Matrix 12: The attitudes about the (LAAA) and its role in developing the accounting and auditing profession and in maintaining auditor independence.

Population group		a	b	c	d	e
EA 1		X	X	X	X	X
EA 2		X	X	X	X	
EA 3		X	X		X	
EA 4		X	X	X	X	X
EA 5		X	X	X		
EA 6		X	X		X	X
IFA 1		X	X	X	X	
IFA 2		X	X	X	X	
IFA 3		X	X	X	X	
IFA 4		X	X	X		X
IFA 5		X	X	X	X	
IFA 6		X	X			X
TBA 1		X	X	X	X	X
TBA 2		X	X		X	X
TBA 3		X	X	X	X	X
TBA 4		X	X	X	X	X
BLO 1		X	X	X		X
BLO 2		X	X	X	X	
BLO 3		X	X	X		X
BLO 4		X	X	X	X	
Total	No	**20**	**20**	**16**	**15**	**11**
	%	**100**	**100**	**80**	**75**	**55**

For more details, refer to codes on page 337.

Matrix 12: The attitudes about the (LAAA) and its role in developing the accounting and auditing profession and in maintaining auditor independence.

Key to code:

EA: External auditor.

IFA: Auditor from the Institution of Financial Auditing.

TBA: Auditor from the Taxation Board

BLO: Bank loan officer.

a) The Libyan accountants and auditors association is not performing its proposed role in maintaining and enhancing auditor independence.

b) The Libyan accountants and auditors association is not performing its proposed role in developing the accounting and auditing profession.

c) The Libyan accountants and auditors association is not performing its proposed role in maintaining and enhancing auditor independence and developing the accounting profession because of its lake of expertise.

d) The Libyan accountants and auditors association is not performing its proposed role in maintaining and enhancing auditor independence and developing the accounting profession because of its lake of financial recourses.

e) The Libyan accountants and auditors association is not performing its proposed role in maintaining and enhancing auditor independence and developing the accounting profession because of the absence of related laws to support the LAAA.