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# Factors Affecting Auditor Independence in Tunisia: The Perceptions of Financial Analysts

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**Abstract:** The purpose of this paper is to explore the perceptions of Tunisian financial analysts regarding factors influencing auditor independence. Our study examines the impact of 49 independence enhancing and threatening factors on the perceptions of 54 financial analysts using a questionnaire instrument. The results indicate that the principal threat factors relate to non audit services provision by the incumbent auditor and the existence of personal and financial relationships. The principal enhancement factor is the positive reputation. Exploratory factor analysis reduces the factors to a small number of dimensions. The most important dimension identified is the economic dependence and existence of personal and financial relationships.

**Keywords:** Auditor Independence, Financial Analysts, Factors, Perceptions

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## 1. Introduction

External auditor independence has been the topic matter of academic and professional debate in developed and developing countries (Hamuda & Sawan, 2014).

In recent time, auditor independence has become more examined given the financial and accounting scandals.

These scandals have led to the introduction of new laws relating to the strengthening of financial relations.

A law called "Sarbanes-Oxley" was adopted in 2002 by the United States, the law focuses on corporate governance and the role of leaders in this governance (Wang et al., 2010).

At the French legislation, there are several new regulations on financial security. We mention in particular the Financial Security Act of August 1, 2003.

In Tunisia the regulatory framework has been strengthened by Law no: 2005-96 of 18 October 2005. This law represents for the Tunisian legislator prevention to the occurrence of financial scandals such as the case of the group Batam end of 2002.

These legislative changes whose main purpose is to ensure the reliability of financial and accounting information underline the importance attached to the audit quality in general and auditor independence in particular.

Auditor independence has been analyzed based on two dimensions, that is, fact and appearance Alleyne et al. (2006).

According to Beattie et al. (1999) "Since third parties are unable to observe directly independence in fact the appearance of independence assumes prime importance".

Studies in this area have concentrated upon the determination of factors which influence independence and evaluate their impact upon perceived independence. These factors have been the subject of examination and pronouncements by policy makers for several decades (Beattie et al., 1999).

The aim of this paper is to explore financial analysts' perceptions of factors influencing auditor independence in Tunisia.

The results of this research are expected to contribute to the debate on auditor independence by assessing the issue in the context of an emerging market, i.e. Tunisia.

Our study can also inform policy makers and professional accounting bodies as to how auditing and accounting standards can be structured to assure suitable regulation of the capital market.

This paper is structured as follows. The next section sets out the theoretical framework and reviews the relevant prior literature. Research methodology section explains the methods used. Results and discussion section provides findings and analysis. A final section summarizes by setting out conclusions.

## 2. Theoretical Framework and Literature Review

Auditor independence is defined by Gay and Simnett (2003) as “ability to withstand pressure from management influence when conducting an audit or providing audit-related services, so that the professional integrity of the auditor is not compromised”.

Auditor independence has been analyzed based on two dimensions, that is fact and appearance.

According to Alleyne et al. (2006) “independence in fact refers to the actual objective state of the relationship between auditing firms and their clients. Independence in appearance refers to the subjective state of that relationship as perceived by clients and third parties”.

The preponderance of auditor independence both in fact and appearance is generally approved in theory and practice.

Thus, a review of the relevant prior literature is exposed in this section.

According to Jensen and Meckling (1976), information asymmetry exists between agents who have additional information about the company and principal.

This results in the weak controlling power of the shareholders and gives managers an opportunity to maximize their profits. Accordingly, the shareholders of the company hire an auditor to produce information that is later used in concluding a contract with the agent (Watts & Zimmerman,

1986).

Thus, auditing is perceived as a method to minimize the agency costs (Al Ajmi&Saudagaran, 2011). This can be attained exclusively when auditor is actually independent in both fact and appearance.

Though, the auditor has to serve three major types of conflicts of interest which can compromise his independence.

According to role conflict theory, the auditor is required to control the company’s financial statements and the public expects the auditor reliably fulfill that role.

Goldman and Barlev (1974) states that conflicts arise between:

- Auditors and firms
- Owners and managers
- Auditors ‘own economic motives and audit criteria

Therefore, auditor independence may be compromised when conflicting interests arise as to what is the audit’s role (Alleyne et al., 2006).

Ben Saad and Lesage (2008) referred to the attribution theory to analyze the perception of external auditor independence. These authors state that, according to this theory, the auditor's independence can be explained by factors. These factors can be internal and external.

Several studies have sought to determine the factors that may influence auditor independence in appearance

The following table reports a relevant review of by distinguishing independence factors in four categories:

**Table 1.** Previous study on factors influencing auditor independence in appearance.

Category	Factors	Author(s)	Impact on independence in appearance	
			+	-
Auditors dependant factors	Competence	Prat-DitHauret (2003)	+	-
	Audit firm size	Blokdijk&al. (2006)	Big size	Small size
	Reputation	Abu Bakar& Ahmad (2009)	+	-
	Ethics	Al-Sawalqa&Qtish (2012)	+	-
Auditee dependent factors	Existence ofan audit committe	Chan et al. (1993)	+	
	Strong financial condition	Al Ajmi&Saudagaran (2011)	+	
	Auditors rotation	Prat-DitHauret(2003)	+	
	Non audit services	Alleyne et al.(2006)	+	
Factors depending on the auditor and on the auditee	Personal and financial relationship	Al-Sawalqa&Qtish (2012)	-	
	Economic dependence	Bell &al. (2001)	-	
	Disclosure of financial relationships	Prat-Dit Hauret (2003)	-	
	Audit market competition	Ghosh& Moon (2005)	+	
Auditor or auditeeon dependent factors	Liability regime	Daniels et Booker (2011)	+	
	External reviews	Abu Bakar et al. (2005)	-	
		Salehieral. (2009)	-	
		Dart (2011)	-	
		Hussey (1999)	-	
		Adeyemi et Akinniyi (2012)	-	
		Abu Bakar et al. (2005)	-	
		Beattie et al. (1999)	+	
		Al-Ajmi&Saudagaran (2011)	+	
		Jeong&al. (2005)	+	
		Abu Bakar&al. (2005)	-	
		Salehi et al. (2009)	-	
		Beattie &al. (1999)	+	
		Prat-Dit Hauret (2003)	+	
		Matsumura& Tucker (1995)	+	
		Prat-Dit Hauret (2003)	+	
		Beattie et al. (1999)	+	

### 3. Methodology

Our study uses the methodology developed by Alleyne et al. (2006) and Al-AjmietSaudagaran (2011).

The research method employed in this study is the quantitative questionnaire. According to Alleyne et al. (2006), the literature has revealed that the dominant method of research was the quantitative questionnaire. The questionnaire was chosen because “inferences about people’s attitudes and opinions can be elicited most effectively and efficiently by survey methods” (Beattie et al., 1999).

As the main users of financial statements, financial analysts were the sample selected for investigation. A questionnaire was developed and directly distributed in February and March 2014 to 105 Tunisian financial analysts working on behalf stock brokers. 53 usable questionnaires were collected from with different profile types (Age, experience, specialty, diploma). This yields a response rate of 50, 48 %.

The survey focused on 49 audit-related issues drawn from

audit literature and Tunisian accounting and audit regulation.

The questionnaire used in the study was divided into five sections: section 1 concern background information including experience, age, size of audit firm, size of company...

Section 2 dealt with auditors dependant factors including factors related to competence, audit firm size, reputation and ethics.

Section 3 focused on auditee dependent factors including factors related to the existence of audit committee and strong financial condition.

Section 4 concerned factors depending on the auditor and the auditee including factors related to auditor’s rotation, non audit services, personal and financial relationship, economic dependence and disclosure of financial relationship.

Section 4 focused on auditor or auditee non dependent factors including factors related to audit market competition, liability regime and external reviews.

Table 2 shows the 49 factors of the study.

*Table 2. List of factors affecting auditor independence.*

Description	Factors
Audit firm size	A non Big4 firm Small local firm Being a sole practitioner
Auditor competence	Auditor is qualified as a chartered accountant Auditor has 5 years or more audit experience Auditor has a good knowledge of audit and accounting standards Auditor has a prior experience as an accountant in the industry
Auditor reputation	Auditors has a positive reputation The name of auditor has not been quoted in relation with fraudulent affaires
Ethics	Auditor does not commit a professional misconduct outside of his audit mission Auditor does not commit a personnel misconduct outside of his audit mission Auditor complies with his personal tax obligations The concern to complete the audit mission within the time-limits Introduction of internal ethical chart by audit firm Observance of professional secrecy Auditor complies with his commitments towards third parties
Existence of an audit committee	Existence of an audit committee composed of independent directors Existence of an active audit committee Existence of an independent and competent audit committee The bigger size of the audit committee
Strong financial condition of the audited company	High degree of liquidity High degree of profitability
Economic dependence	Auditor's income depends on the retention of a specific audit client ≥10% of total auditor revenues from one client Auditor perceives income other than those provided by law Auditor perceives excessive fees compared to total income Client important to firm's overall portfolio Directors' de facto control of auditors' remuneration
Personal and financial relationships	The auditor is a shareholder of the auditee The auditor is an employee of the auditee The auditor obtains interest free loan from the auditee The existence of a family relationship between the auditor and auditee
Provision of non audit services	Non audit services ≥ 100% audit fees Non audit services ≥ 50 % audit fees Non audit services ≥ 25 % audit fees Preparation of financial statements Provision of executive search and appointment services by incumbent auditor

Description	Factors
Auditor rotation	Rotation of audit partners Rotation of audit firms
Disclosure of financial relationships	Disclosure of audit fees Disclosure of non audit fees Disclosure of non audit services
External reviews	Joint audit Partner review External control
Competition	High level of Competition among audit firms Audit fee discounting and low balling
Liability regime	Penalty regimes
Flexibility	Flexibility of accounting standards

Financial analysts were expected to indicate the extent to which each of these issues affected auditor independence in appearance. Their responses were in the form of a five point Likert type scale:

- Seriously undermined independence
- Slightly undermined independence
- No effect on independence
- Slightly enhanced independence
- Seriously enhanced independence

Our study uses a framework of auditor independence in appearance which includes independence threatening and independence enhancing factors. This study addresses the issue of auditor independence by analyzing the perceptions of financial analysts.

To assure that the questionnaire was comprehensible a pilot test was conducted the questionnaire was sent to three

financial analysts and two academics there were asked to complete the questionnaire and to submit suggestions for improvements.

## 4. Results and Discussion

Table 3 sets out the mean scores (column 2) and ranks (columns 3 and 4) of 49 factors on the appearance of independence. The 49 factors are divided into two categories. Category 1 includes the factors which financial analysts believe to impair auditor independence (mean score <3). Category 2 includes the factors which financial analysts believe to enhance independence (mean score > 3).

Factor scores were significantly different from 3 at the 5% level (using t-test).

*Table 3. Perceptions of financial analysts regarding factors affecting auditor independence.*

Factors	MeanScore	RUa	REb
A non Big4 firm	1,4151		13
Being a sole practitioner	1,3774		10
Small local firm	1,3775		11
High degree of liquidity	2,3962		17
High degree of profitability	2,3962		17
Rotation of audit partners	4,4717	9	
Rotation of audit firms	4,7358	2	
Penalty regime	4,717	3	
Auditors has a positive reputation	4,7547	1	
The name of auditor has not been quoted in relation with fraudulent affairs	4,7547	1	
Disclosure of audit fees	4,2264	11	
Disclosure of non audit fees	4,2642	10	
Disclosure of non audit services	3,8679	12	
Non audit services $\geq$ 100% audit fees	1,0755		1
Non audit services $\geq$ 50 % audit fees	1,2264		6
Non audit services $\geq$ 25 % audit fees	1,717		16
Provision of executive search and appointment services by incumbent auditor	1,1887		5
Preparation of financial statements	1,1132		2
The auditor is a shareholder of the auditee	1,2642		8
The auditor is an employee of the auditee	1,1698		4
The auditor obtains interest free loan from the auditee	1,1698		4
The existence of a family relationship between the auditor and auditee	1,1509		3
Flexibility of accounting standards	1,3774		10
Auditor does not commit a professional misconduct outside of his audit mission	3,6038	15	
Auditor does not commit a personnel misconduct outside of his audit mission	3,5849	16	
Auditor complies with his personal tax obligations	3,6415	14	
The concern to complete the audit mission within the time-limits	3,3208	20	
Introduction of internal ethical chart by audit firm	3,3208	20	
Observance of professional secrecy	3,283	22	
Auditor complies with his commitments towards third parties	3,717	13	

Factors	MeanScore	RUa	REb
Auditor's income depends on the retention of a specific audit client	1,3962		12
≥10% of total auditor revenues from one client	1,4906		15
Auditor perceives income other than those provided by law	1,283		9
Auditor perceives excessive fees compared to total income	1,2453		7
Client important to firm's overall portfolio	1,2453		7
Directors' de facto control of auditors' remuneration	1,2453		7
Joint audit	4,6792	4	
Partner review	4,566	7	
External control	4,6415	5	
High level of Competition among audit firms	1,4151		13
Audit fee discounting and low balling	1,434		14
Auditor is qualified as a chartered accountant	3,3019	21	
Auditor has 5 years or more audit experience	3,4906	19	
Auditor has a good knowledge of audit and accounting standards	3,5283	17	
Auditor has a prior experience as an accountant in the industry	3,5094	18	
Existence of an audit committee composed of independent directors	4,5094	8	
Existence of an active audit committee	4,6038	6	
Existence of an independent and competent audit committee	4,566	7	
The bigger size of the audit committee	3,3208	20	

RUa: mean rank of the undermining factor

REb: mean rank of the enhancing factor

#### 4.1. Threatening Factors

Out of the 49 factors, financial analysts perceived 24 factors as undermining auditor independence.

Small audit firm: to test the impact of the size of audit firm on auditor independence three factors are included in the questionnaire. Financial analysts perceive them as threatening factors. They rank them as 13th, 10th and 11th.

These results are similar to those reported by Al-AjmietSaudagaran (2011).

Provision of non audit services: Five factors are included in this study to test the impact of non audit services on auditor independence. Three of the factors are associated to the size of the non audit services fees and two other factors are related to the type of services. The five factors are classified by our sample among the factors that impair independence. Financial analysts rank provision of non audit services by incumbent auditors in excess of 100 % of audit fees as the first serious factor that impair independence.

Economic dependence: Six factors representing economic dependence of the auditor on the auditee are included in the questionnaire. The financial analysts perceive them as threatening factors. Surprisingly, economic dependence is not selected by our respondents among their most critical factors.

##### 4.1.1. Strong Financial Condition of the Audited Company

Two factors representing strong financial condition of the audited company are included in the questionnaire. Financial analysts perceive them as threatening factors. The two factors are ranked 17th by our respondents.

##### 4.1.2. Existence of Financial and Personal Relationships

The three factors representing existence of financial and personal relationships are highly ranked among threatening factors. These factors are: the auditor is an employee of the auditee (4th), the auditor obtains interest free loan from the auditee (4th) and the existence of a family relationship

between the auditor and auditee (3th).

##### 4.1.3. Competition Among Audit Firms

High level of competition among audit firms and audit fee discounting and low balling are ranked by financial analysts as 13th and 14th respectively among threatening factors.

##### 4.1.4. Flexibility

Financial analysts perceive that flexibility of accounting standards as one of the threatening factors to an auditor independence. It is ranked 10th by our sample.

#### 4.2. Enhancing Factors

Out of the 49 factors, our respondents perceived 25 factors as enhancing auditor independence.

##### 4.2.1. Competence

Four factors are included in this survey to test the influence of competence on auditor independence. These factors do not appear high in the rankings indicating that the importance of these factors enhancing independence is minimal.

##### 4.2.2. Auditor Rotation

Rotation of audit firms is ranked by Tunisian financial analysts at number two among the factors enhancing independence. Regarding the second factor "rotation of audit partners", our respondents ranked it 9th relative to other enhancing factors.

##### 4.2.3. Liability Regime

Financial analysts attached highest importance to this factor. They ranked it 3th relative to other enhancing factors.

##### 4.2.4. Existence of Audit Committee

Among factors identified as enhancers of auditor independence, financial analysts attached highest importance to three factors related to the existence of audit committee. These factors are ranked 8th, 6th and 7th relative to other enhancing factors.





Matrice des composantes après rotation													
	Composante												
	1	2	3	4	5	6	7	8	9	10	11	12	13
Penalty regime						,558						-,519	
High level of Competition among audit firms				,902									
Audit fee discounting and low balling				,919									
Flexibility of accounting standards				,929									
Disclosure of audit fees												,928	
Disclosure of non audit fees												,901	
Disclosure of non audit services												,575	

Méthode d'extraction: Analyse en composantes principales.

Méthode de rotation :Varimax avec normalisation de Kaiser.

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