Investors’ perceptions of auditor independence: Evidence from Hong Kong

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Abstract

*Purpose:* This paper examines investors’ perceptions of auditor independence in Hong Kong. 

*Design/methodology/approach:* A survey research design was employed using questionnaires distributed to audited financial statement users and certified public accountants (CPAs). The survey covered six aspects of the auditor-client relationship: audit firm size, competition for audit clients, regulations, auditor tenure, provision of non-audit services (NAS), and audit fees. The data was tested using Multiple Regression and Factor Analysis.

*Findings:* The findings of the analysis are that: audit firm size does influence auditor independence; a high level of competition does influence auditor independence; strict regulation and severe punishment does enhance auditor independence; and auditor tenure of 5 years or more does influence auditor independence.

*Practical/social implications:* Findings support both a code of ethics and ongoing professional development for auditors to maintain high standards in regards to auditor independence.

*Key words:* Auditor independence; investor perceptions; auditor-client relationship.

*JEL Classification:* M42

*PsycINFO Classification:* 3450; 3920

*FoR Code:* 1501; 1702

*ERA Journal ID#:* 123340
Introduction

Auditor independence is the cornerstone of the auditing profession (Mautz & Sharaf, 1961). The importance of the audit function is based on auditor independence and the value of an audit report depends on the degree to which it has been independently produced (Mautz & Sharaf, 1961; Moizer, 1991; Lee, 1993). However, the ability of auditors to fully uphold professional integrity service ideals is still in question.

Due to a series of high profile accounting scandals, increased litigation, widespread criticism of the accounting profession, and the impact of the recent financial crisis, exploring investor perceptions of the issues surrounding auditor independence is valuable. Professional accounting bodies recognize the need for auditor independence.

This study analyses the views of audited financial statement users and certified public accountants (CPAs) from Hong Kong and China on six aspects of the auditor-client relationship: audit firm size, competition for audit clients, regulations, auditor tenure, provision of non-audit services (NAS), and audit fees. The findings can be used to extrapolate the situation in China and contribute to setting regulations, training, and enactments in Hong Kong and China, thereby reducing the effects of information asymmetry and the expectation gap between stakeholders while concurrently enhancing auditor independence.

Literature Review and Hypotheses

Many studies have examined various factors affecting auditor independence (Shockley, 1981; Lindberg & Beck, 2004; Barizah Abu Bakar, Rahim Abdul Rahman & Majdi Abdul Rashid, 2005). Several reasons exist for studying auditor perceptions of their own independence. Johnson and Pany (1984) mentioned that because auditors sign off their audit reports on client financial statements, they are familiar with these reports. Jenkins and Krawczyk (2001) stated that CPA perceptions are important because they are the only audit practitioners responsible for providing independently formed audit opinions about whether financial statements are true and fair or not (Haron, Ismail & Na, 2015; Carcello, Hermanson & McGrath, 1992). Auditors are selected because they are more familiar with the concept of independence as a critical element of their professional status (Agacer & Doupnik, 1991). Moreover, the question of whether auditors are independent is best answered by auditors themselves (European Federation of Accountants and Auditors, 1998). Considering the possibility that financial statement users may be unaware of, or may misunderstand the concept of, independence, studying auditor perceptions of their own independence can provide constructive feedback to regulators.

Akerlof’s (1970) explanation of information asymmetry in the second-hand car market can be applied to the accounting industry between company directors and shareholders. Company directors (agents) are obliged to prepare financial statements to reflect the financial status of a company for shareholders (principals), creating an agency relationship between the two parties. According to agency theory, shareholders may doubt whether company directors act on their behalf. Therefore, they may believe that financial information supplied by management is insufficiently accurate, resulting in information asymmetry where management has greater access and stakeholders are in a weaker position.

In response, shareholders employ auditors to provide more objective and independent opinions on the financial information prepared by company directors. The aim is to remove the information asymmetry between shareholders and management. However, an agency relationship also exists between shareholders and auditors, because shareholders (principals) employ auditors (agents). According to agency theory, shareholders may believe that auditors do not work completely on their behalf and therefore have reservations about auditor opinions. Information asymmetry also exists in this case. These factors create an expectation gap between auditors and shareholders (Dixon, Woodhead & Sohliman, 2006; Shaikh & Talha, 2003; Lin & Chen, 2004).
This relationship between auditors and shareholders is important for understanding auditor independence. Stakeholder theory states that narrowing the expectation gap assists in reducing the effect of information asymmetry between auditors and shareholders (Heath & Norman, 2004). Agency theory states that this may improve auditor functions because of increased creditability. Auditors should be independent parties, presenting a true and fair view of the financial information prepared by company directors. Increased auditor report creditability means shareholders and other stakeholders are more likely to believe the information prepared by company directors. This reduces the effect of information asymmetry on the financial information prepared by company directors.

Moreover, as private investor perceptions of auditor independence increase, other stakeholder perceptions also increase, narrowing the auditing gap. Hence, although stakeholder theory identifies several auditor report stakeholders, including company employees, shareholders, the government, creditors, and regulatory bodies, the scope of this study is limited to auditor independence perceptions from private investors and CPAs.

Most empirical research that has attempted to examine the relationship between audit firm size and auditor independence has found that larger audit firms produce more independent auditors. For example, Barizah Abu Bakar et al. (2005), DeAngelo (1981b), Shockley and Holt (1983), Nichols and Smith (1983), Dopuch and Simunic (1980), McKinley, Pany and Reckers (1985), Shockley (1981), and Gul (1989) showed that large firms are more resistant to client pressure, thus maintaining higher auditor independence. It has been argued that due to their size, large firms are more able and more motivated to provide better audits (Barizah Abu Bakar et al., 2005). However, Goldman and Barlev (1974) indicated that large CPA firms are not immune to client pressures. Indeed, competition for clients among large firm offices may be as great as the competition among small, independent CPA firms. Court cases that challenge the assumption that CPA firms act independently indicate that using a large CPA firm does not guarantee resistance to client pressure, as shown by the cases of Arthur Andersen and Enron (Barizah Abu Bakar et al., 2005). These arguments are used to form the following hypothesis:

H1: Audit firm size does not influence auditor independence.

Audit market competition affects auditor independence (Shockley, 1981). Research has found that auditors are more likely to engage in cooperative behaviour to improve their competitive position (Shockley, 1981; Knapp, 1985; Farmer, Rittenberg & Trompeter, 1987; Beattie, Brandt & Fearnley, 1999; Sucher & Bychkova, 2001; Umar & Anandarajan, 2004a, 2004b; MacLullich & Sucher, 2005). Several studies, such as Knapp (1985) and Shockley (1981), have shown that a high level of competition in an audit firm decreases auditor independence. However, Gul (1989), Windmöller (2000), and Reynolds and Francis (2000) came to the opposite conclusion. These arguments lead to the second hypothesis:

H2: An environment characterised by a high level of competition does not influence auditor independence.

Regulatory bodies have established new independence standards, because the setting within which auditor independence perceptions are formed changes continuously (Alleyne & Devonish, 2006). Investigating the role of regulation and regulators’ actions in the auditing field must account for two types of auditing profession controls: legal sanctions, reflected by civil and criminal liability, and market reactions, mainly reflected by reputation. Regulators can select an indirect intervention strategy by facilitating the two controls and the complementary role of self-regulation, or a direct intervention strategy. Auditors are able to estimate their legal costs and can consequently shift this burden to their clients by charging higher audit fees, which can result in the marginal cost of litigation influencing the level of auditor effort (Gigler, 1994). If auditors expect severe punishment as a result of being sued, they are less likely to lose independence. If auditors perceive that the severity of the punishment and regulations is increasing, the likelihood that auditors will lose independence declines. Thus, auditors maintain independence when the penalty for detected impairment is relatively large (Gigler, 1994; Calegari, Schatzberg & Sevcik, 1998). The following alternative hypothesis is proposed:
H3: Strict regulations and severe punishment enhance auditor independence.

The tenure of an audit firm (which is the length of time an auditor has been meeting the audit requirements of a client) affects auditor independence (Barizah Abu Bakar et al., 2005). A long association between a client and an accounting firm may lead to an accounting firm identifying with the interests of client management, making it difficult for the accounting firm to act independently (Barizah Abu Bakar et al., 2005). Mautz and Sharaf (1961) indicated that in many cases, the greatest threat to auditor independence is a slow, gradual, almost casual erosion of “honest disinterestedness”. Complacency, lack of innovation, less rigorous audit procedures, and confidence in the client may arise after a long association. Some critics argue that vested interests may encourage auditors to compromise their independence to gain continuing audit engagements (Hoyle, 1978). Rotating audit partners is one of the main policy initiatives that has been implemented in many countries to manage audit quality concerns. Requirements limiting audit partner tenure exist because a reduction in audit quality is associated with long tenures (Carey & Simnett, 2006).

Auditor rotation is supported because longer auditor tenure leads to economic bonding between the auditor and client (Silvers, 2003; Gul, Jaggi & Krishnan, 2007). Rotation ensures that an audit firm remains independent because audit partner tenure is limited and any vested interests are no longer relevant (Teoh & Lim, 1996). Certain researchers have opposed this suggestion (Shockley, 1981; DeAngelo, 1981a; Firth, 1981; Jackson-Heard, 1987; Johnson, Khurana & Reynolds, 2002). Shockley (1981) found that tenure does not significantly impact perceptions of independence. Teoh and Lim (1996) agreed, reporting a negative relationship between tenure and auditor independence. Johnson et al. (2002) found that the absolute value of unexpected accruals was higher in the beginning of an auditor-client relationship (compared to a medium-length auditor tenure), whereas no relationship existed for long tenure relationships (9 years or longer). Myers, Myers and Omer (2003) also supported this argument by documenting lower earnings for clients with shorter auditor tenures. These arguments lead to the fourth hypothesis:

H4: Auditor tenure does not influence auditor independence.

Whilst many empirical studies have investigated the influence of NAS on perceived auditor independence, for the most part, research examining its impact has produced mixed results. Quick and Warming-Rasmussen (2005) reported that shareholders, bank loan officers, and journalists in Denmark perceived a negative effect on auditor independence if auditors provided NAS. Law (2008) found that NAS provision negatively influenced auditor perceptions of independence in Hong Kong. Similarly, Quick and Warming-Rasmussen (2009) concluded that German shareholders generally perceived a negative effect on auditor independence if NAS were provided, even though these services are not prohibited in Germany.

By contrast, other studies have identified a positive relationship between NAS provision and perceptions of auditor independence (Barizah Abu Bakar et al., 2005). They propose that NAS provision enhances auditor knowledge of a client, increasing auditor objectivity (Goldwasser, 1974; Wallman, 1996). According to Goldman and Barlev (1974), management services increase auditor power and independence. They argued that this occurs because most consulting services are non-routine and these services directly benefit the client firm. Consequently, replacing a consulting auditor may result in a firm losing valuable advice. This strengthens the bargaining position, enabling auditors to better resist interference in their auditing duties, making them more likely to remain independent (Barizah Abu Bakar et al., 2005).

Some studies have shown that NAS provision has little to no effect on perceptions of auditor independence. For example, Brandon, Crabtree and Maher (2004) concluded that NAS provision negatively affected bond rating analyst perceptions of auditor independence. Higgs and Skantz (2006) found limited support for the contention that the market views abnormally profitable NAS as creating an economic bond that threatens auditor independence.

These conflicting results suggest that the effect of NAS on perceptions of auditor independence is complex (Gul, 1989; Shockley, 1982; Corless & Parker, 1987) and that other
factors, such as cultural differences, may also impact how NAS affect auditor independence. These arguments lead to the fifth hypothesis:

**H5:** NAS provision by incumbent audit firms does not influence auditor independence.

When the relationship between audit fee value and auditor independence is usually discussed, large audit fees (as a percentage of the total audit revenue) are associated with a higher risk of damaging auditor independence (Barizah Abu Bakar et al., 2005).

The Cohen Commission (AICPA, 1978) emphasized the importance of audit fees as a crucial independence-related issue. This attention encouraged research into the relationship between audit fees and other independence-related issues, such as NAS provision, audit firm size, and competition. Therefore, most empirical studies relate audit fees to other factors. For example, Burton and Fairfield (1982) indicated that smaller audit firms were more dependent on a client if the audit fees generated were a significant proportion of their overall revenue. In a highly competitive environment, auditors are also perceived as less independent because they are more likely to lose clients and the revenue they generate. Shockley (1982) also suggested that the adverse effects of NAS, audit firm size, and competition on third-party perceptions of auditor independence exist because these variables are linked to audit fees.

Nevertheless, certain studies disagree. Audit fee research has found that increased audit fees are positively associated with auditors producing modified audit reports (Simunic, 1980; Francis, 1984; Francis & Simon, 1987; Davis, Ricchiute & Trompeter, 1993; Basioudis, Papakonstantinou & Geiger, 2008). These studies have concluded that, when auditors modify their reports, they typically require more substantive testing and documentation and engage in lengthy discussions and negotiations with a client to support their final opinions. This additional work increases audit fees and results in a positive association between audit fees and report modifications.

Pany and Reckers (1980) concluded that the size of the client relative to the audit firm has a significant direct, or modifying, effect on perceptions of auditor independence. They defined size as the proportion of audit fees to firm revenue. They found that audit fees had no significant effect on perceived independence. In their 1983 study, although client size did not have a significant effect, they noted that respondents expressed less confidence in auditor independence when a client was large (size was defined as the proportion of audit fees to office revenues). These arguments lead to the sixth hypothesis:

**H6:** The value of the audit fees received by an audit firm does not influence auditor independence.

**Method**

This study uses data collected through an email survey as evidence to support the six hypotheses. The items were measured with a 5-point Likert response format (1 = strongly disagree; 5 = strongly agree). The survey was conducted anonymously using an emailed invitation. All online questionnaires were initiated by an emailed invitation. All participants were randomly selected and were required to be 18 years old or older.

Of the 2,000 email invitations that were sent 693 were returned (329 from CPAs and 364 from investors). This produced a response rate of 34.6%. To facilitate meaningful interpretation of the findings, data were collected on selected demographic variables. Information was obtained from 693 respondents on their occupation, gender, age, educational background, and experience with their reported occupation. Due to the nature of the Internet and the difficulties it poses in data collection, some surveys suffered from missing data for various reasons, such as participants logging out of the survey before completion. Therefore, the data was cleaned by deleting participants with missing data. This reduced the number of respondents with complete information to 586.
The study proceeded to use factor analysis to confirm the hypothesised relationships between variables, and perform multiple linear regression to assess the relationship amongst the variables.

Results

Factor analysis was conducted to determine which variables can be categorized together based on common factors. Confirmatory factor analysis was applied to the survey questions to test the variables. These questions are designed to reflect opinions on auditor independence. Three steps were followed to obtain solutions to the exploratory factor analysis:

1) an appropriate covariance or correlation matrix was prepared;
2) the initial factors were extracted; and
3) the terminal solution was rotated to identify the high loading values.

The correlation matrix was run to screen the primitive relationships among the 43 questions. SPSS was used to perform an orthogonal rotation method, the varimax criterion. The results exhibit a clear picture of the factor loadings for each question. Any factor loading values greater than or equal to 0.7 are considered significant.

Because 88.8% of the questions in the questionnaire are included in the seven factors, the relationship between NAS1, NAS2, TEN, SIZE, FEE, COMP, and REG was analysed to identify any meaningful factors that explain these seven variables. An average value was calculated for the questions in Factor groups NAS1, NAS2, TEN, SIZE, FEE, COMP, and REG, because the orthogonal rotation analysis supports the questionnaire design. Factor analysis was repeated using the average values from NAS1, NAS2, TEN, SIZE, FEE, COMP, and REG.

Six factors were analysed to reveal which of them influences auditor independence the most. Table 1 ranks the seven factors (four of the seven factors have a significant relationship with auditor independence) from highest to lowest importance, based on their standardized Beta values as follows:

1) NAS1
2) COMP
3) FEE
4) REG
5) SIZE
6) TEN
7) NAS2

Almost all groups show that the same three factors significantly affect independence, namely, COMP, NAS1, and FEE. Although the big four result is slightly different, NAS1 and FEE affect auditor independence the most. This is consistent with previous findings that COMP, NAS1, and FEE influence auditor independence the most.

Based on these seven factors, multiple linear regression models are used to verify whether the hypotheses are supported. The factor analysis showed that a set of survey questions reflects each of the seven factors, namely COMP, NAS1, NAS2, FEE, REG, SIZE, and TEN.
Table 1:
Multiple regression models of various respondent groups based on ANOVA results (I)

<table>
<thead>
<tr>
<th>Regression Model</th>
<th>Overall model (N=570)</th>
<th>Model for Private Investors (N = 233)</th>
<th>Model for Auditors (N = 337)</th>
<th>Model for Big-4 firm (N=180)</th>
<th>Model for Non-Big 4 Firm (N = 157)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Variable</td>
<td>Unstandardized Coefficients (B)</td>
<td>Standardized Coefficients (Beta)</td>
<td>t-test (p-Value)</td>
<td>Unstandardized Coefficients (B)</td>
<td>Standardized Coefficients (Beta)</td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.583</td>
<td>0.000</td>
<td>0.559</td>
<td>0.000</td>
<td>0.633</td>
</tr>
<tr>
<td>FEES</td>
<td>0.139</td>
<td>0.306</td>
<td>0.000</td>
<td>0.161</td>
<td>0.349</td>
</tr>
<tr>
<td>REG</td>
<td>0.128</td>
<td>0.295</td>
<td>0.000</td>
<td>0.130</td>
<td>0.292</td>
</tr>
<tr>
<td>TEN</td>
<td>0.107</td>
<td>0.199</td>
<td>0.000</td>
<td>0.101</td>
<td>0.166</td>
</tr>
<tr>
<td>NAS₁</td>
<td>0.156</td>
<td>0.316</td>
<td>0.000</td>
<td>0.137</td>
<td>0.251</td>
</tr>
<tr>
<td>NAS₂</td>
<td>0.299</td>
<td>0.162</td>
<td>0.000</td>
<td>0.285</td>
<td>0.18</td>
</tr>
<tr>
<td>COMP</td>
<td>0.123</td>
<td>0.309</td>
<td>0.000</td>
<td>0.108</td>
<td>0.257</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.105</td>
<td>-0.256</td>
<td>0.000</td>
<td>-0.105</td>
<td>-0.249</td>
</tr>
</tbody>
</table>

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<th>Model for Private Investors (N = 233)</th>
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<th>Model for Non-Big 4 Firm (N = 157)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R square</td>
<td>0.927</td>
<td>0.98</td>
<td>0.944</td>
<td>0.951</td>
<td>0.941</td>
</tr>
<tr>
<td>Adjusted R square</td>
<td>0.926</td>
<td>0.905</td>
<td>0.943</td>
<td>0.949</td>
<td>0.938</td>
</tr>
<tr>
<td>SE Estimate</td>
<td>0.122</td>
<td>0.141</td>
<td>0.106</td>
<td>0.101</td>
<td>0.107</td>
</tr>
<tr>
<td>F statistics</td>
<td>1019.235</td>
<td>318.076</td>
<td>790.181</td>
<td>481.315</td>
<td>337.599</td>
</tr>
<tr>
<td>p-value</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>
Table 2:
*Multiple regression models of various respondent groups based on ANOVA results (II)*

<table>
<thead>
<tr>
<th>Regression Model</th>
<th>Model for HKICPA (N=258)</th>
<th>Model for CPA-Auditor (N=153)</th>
<th>Model for CPA Non-Auditor (N=105)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficients (B)</td>
<td>Standardized Coefficients (Beta)</td>
<td>t-test (p-Value)</td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.581</td>
<td>0.000</td>
<td>0.552</td>
</tr>
<tr>
<td>FEES</td>
<td>0.124</td>
<td>0.276</td>
<td>0.127</td>
</tr>
<tr>
<td>REG</td>
<td>0.125</td>
<td>0.284</td>
<td>0.128</td>
</tr>
<tr>
<td>TEN</td>
<td>0.125</td>
<td>0.220</td>
<td>0.118</td>
</tr>
<tr>
<td>NAS₁</td>
<td>0.180</td>
<td>0.344</td>
<td>0.177</td>
</tr>
<tr>
<td>NAS₂</td>
<td>0.235</td>
<td>0.114</td>
<td>0.249</td>
</tr>
<tr>
<td>COMP</td>
<td>0.126</td>
<td>0.303</td>
<td>0.127</td>
</tr>
<tr>
<td>SIZE</td>
<td>-0.112</td>
<td>-0.271</td>
<td>-0.110</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regression Model</th>
<th>Model for HKICPA (N=258)</th>
<th>Model for CPA-Auditor (N=153)</th>
<th>Model for CPA Non-Auditor (N=105)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R square</td>
<td>0.938</td>
<td>0.933</td>
<td>0.945</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.936</td>
<td>0.931</td>
<td>0.941</td>
</tr>
<tr>
<td>SE Estimate</td>
<td>0.120</td>
<td>0.121</td>
<td>0.122</td>
</tr>
<tr>
<td>F statistic</td>
<td>542.096</td>
<td>292.369</td>
<td>238.534</td>
</tr>
<tr>
<td>p-value</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>
The regression models of the various groups show that the seven factors (independent variables) contribute significantly to auditor independence (dependent variable). Of the seven factors, NAS1, COMP, REG, and FEE are the most influential factors, regardless of which groups are compared. The model comparisons show that NAS1 and COMP are always the two factors that influence auditor independence the most. NAS1, COMP, REG, FEE, and TEN decrease auditor independence, while SIZE increases auditor independence.

These results are summarised as follows.

H1: Audit firm size does not influence auditor independence.

The results do not support this hypothesis. The various group multiple regression models show that SIZE is negatively related to independence. SIZE exhibits a low Beta coefficient and a high mean value.

H2: An environment characterized by a high level of competition does not influence auditor independence.

The results do not support this hypothesis. The various group multiple regression models show that the COMP Beta coefficient is positive and exhibits a high influence on independence. Higher competition decreases auditor independence.

H3: Strict regulation and severe punishment enhance auditor independence.

The results support this hypothesis, showing that more self-regulation decreases independence. The various group multiple regression models show that the REG Beta coefficient is positive and has a moderate influence on independence. Therefore, respondents may feel that self-regulation is lenient and decreases auditor independence.

H4: Auditor tenure does not influence auditor independence.

The results do not support this hypothesis, but only when tenure is more than 10 years. The various group multiple regression models show that the TEN Beta coefficient is positive. This shows that a longer tenure (especially more than 10 years) decreases auditor independence. These results are supported by Law, Yuen and Lyu (2013). This study analyses the impact of “guanxi” (“Guanxi” refers to the networks of informal relationships and exchanges of favours that dominate all business and social activities occurring throughout China) and client size on the perceived independence of auditors in the setting of Hong Kong. It finds that independence is severely impaired when the tenure (duration of guanxi with clients) reaches five years or more. The results indicate that the longer the tenure (guanxi) when the auditor is associated with an audit client, the greater the decrease in their perceived independence. Importantly, this has implications for audit legislation.

H5: NAS provision by incumbent audit firms does not influence auditor independence.

The results do not support this hypothesis. The various group multiple regression models show that the NAS Beta coefficient is positive value and exhibits a high influence on independence. This shows that providing more NAS decreases auditor independence.

H6: The value of audit fees received by an audit firm does not influence auditor independence.

The results do not support this hypothesis. The various groups multiple regression models show that the FEE Beta coefficient is positive and has a moderate influence on independence. This shows that higher fees decrease auditor independence.
Conclusion

This study identifies the perceptions of private investors in Hong Kong on the impact of various auditor-client relationships on auditor independence. The results show that respondents expressed concerns over the independence of auditors that corresponded to previous empirical research, (however, these concerns were rarely very strong) with the exception of audit tenure. Indeed, according to the survey results, a longer tenure (especially more than 10 years) decreases auditor independence. Regarding NAS provision, respondents expressed concerns over the independence of auditors which are stronger among respondents with specific reasons to doubt auditor independence. The study emphasizes the need for the HKICPA to revise its ethical guidelines on auditor tenure and NAS provision.

Participants in this study did not make clear distinctions between big four and non-big four audit firms and did not perceive non-big four audit firms as less independent than big four audit firms. This may be attributed to the continuing efforts by the HKICPA to promote the professionalism and integrity of its members and its proactive monitoring and control. However, whether smaller audit firms actually welcome such an act by the HKICPA is unclear, because monitoring is costly and smaller firms, which typically have smaller revenue, bear these costs.

This study raises several important issues, all of which suggest that the auditing profession needs to consider greater emphasis on auditor independence under the auspices of continued self-regulation. To that end the accounting profession needs a commitment to the continuation of research aimed at auditor independence.

References


