Non-Audit Services and the Impairment of Auditors’ Independence: A Further Examination

Appah Ebimobowei
Department of Accounting, Bayelsa State College of Education, Okpoama Brass-Island, P.M.B. 74, Yenagoa, Nigeria West-Africa

Abstract: This study discusses the provision of non-audit services and the impairment of researcher’s independence. The researcher examines the adequacy of independence of auditors and determines whether or not the provision of non-audit services affect the independence of researcher’s. To achieve the objective of this study, data was collected from documentary sources in a descriptive manner. The study examines: the concept of independence; factors affecting independence; non-audit services; non-audit service and regulatory framework of some selected countries; non-audit services and regulatory framework in Nigeria; some selected empirical studies on non-audit services and researcher’s independence. A few suggestions are finally put forward which if accepted would improve researcher’s independence on the provision of non-audit services.

Key words: Auditor, independence, non-audit services, data, sources, Africa

INTRODUCTION

Auditors’ independence is the foundation of the auditing profession, a significant element in the statutory financial reporting process and a key condition for adding value to all audited financial reports. According to Appah (2008), the duty of an auditor-statutory wise is to form and express an opinion on the financial statement presented to him. In order to achieve this, the auditor needs to be and be seen to be independent from the business.

Ye et al. (2006) observed that recent financial scandals involving large corporations have cast doubt over the independence of auditors and the overall value of auditing. They noted that the economic dependence resulting from the provision of non-audit services have been alleged to contribute to the erosion of auditor independence. As Francis (2006) puts it, the possibility that such non-audit services fundamentally change the auditor’s role from outside skeptical reviewer to inside adviser and decision maker and that this change compromises the auditor’s ability to be independent outsider; the increasing fee reliance on non-audit services creates an economic bond that compromises auditor independence.

Knechel and Sharma (2008) argue that auditor provided non-audit services have been a controversial topic in the auditing profession for many years and are one of the key issues in debates between regulators and the accounting profession regarding potential threats to auditors independence. Many commentators believe auditors are more lenient in dealing with difficult accounting issues where a client purchases significant amounts of non-audit services from a firm. According to Ojo (2009), the provision of non-audit services by audit firms does not necessarily influence the independence of auditors. However, where the fees generated from such non-audit services are considerably high (in proportion to the audit fees earned by such accounting firms) and insufficient safeguards operates to protect the auditor’s independence, this creates a situation whereby the auditors independence is likely to be compromised since the auditor may be denied lucrative contracts (in the form of fees generated from NAS) where he decides to give a qualified opinion on the financial statement being audited.

Proponents of the provision of audit services argue that synergies of knowledge spillover and audit efficiency arise from providing both audit and non-audit services. While the opponents contend that providing non-audit services increases the auditor’s financial reliance on the client and therefore may impair auditor’s independence. Empirical evidence generally suggests that the level of non-audit services fees does not threaten auditor independence (Defond et al., 2002; Kinney et al., 2003).

While some empirical evidence suggests a negative relationship between non-audit services and auditor independence (Frankel et al., 2002; Firth, 2002; Duh et al., 2007). This issue of the provision of non-audit services affecting auditor’s independence remains an important question for regulators, policy makers and academicians alike. Regulators want to make sure that transparency and the reported financial statements audited by auditors is not affected by conflicts of interest. Policy makers want to
ensure that disclosure requirements reflect conflict of interest relationships and shareholders should be able to evaluate their investment decisions. Academic accountants have sought after this question to assess which of the competing theories dominate when auditors provide non-auditing services-one that the loss of reputation and increased risk of litigation will deter auditors from compromising independence versus alternate theory that states that auditors increased economic bonding with clients can adversely impair independence (Sinha, 2009; Gupta, 2005; Whittington and Puny, 2001).

THEORETICAL LITERATURE

The concept of independence: According to Ekezie, the fundamental concept of professional independence is an attitude of the mind based on integrity and an objective approach to work. He maintained that an auditor must at all times, perform his research objectively and impartially and free from influence by any consideration which might appear to be in conflict with this requirement. Also Appah (2008) note that independence in auditing means having a position to take an unbiased view point in the performance of audit test, analysis of results and attestation in the audit report.

It is where the auditor should not be under the influence of clients at any given circumstances. In a similar vein, the Independence Standard Board cited in Salehi (2009) defines independence as freedom from pressures and other factors that impair or are perceived to impair, an auditor’s willingness to exercise objectivity and integrity when performing an audit. It is the absence of certain activities and relationships that may impair or may be perceived to impair, an auditor’s willingness to exercise objectivity and integrity when performing an audit. Ekezie argue that professional independence may either be corporate independence or individual independence. Corporate independence means independence of professional accountancy body as a whole whereas individual independence is that of a member of an accountancy profession in the research place. Independence can also be viewed as independence fact and appearance.

Independence may be in a state of mind. This requires the auditor to be free from bias, personal interest, prior commitment to an interest or susceptible to undue influence. This means that an average auditor possessing the requisite state of mind will act in the correct way that will not affect the professional duty of due care and skill. The IFA (2003) Code states that the state of mind that permits the provision of an opinion without being affected by influences that impairs professional judgement, allowing an individual to act with integrity and exercise objectivity and professional skepticism. Salehi (2009) notes that auditors should not be independent in fact but more fundamentally they should be seen to be independent in examining financial statement.

Therefore, auditors are expected to be able to independently decide on reporting strategies without any undue influence from clients (Cullinan, 2004). Independence in fact means the objective relationship between the auditor and the client while independence in appearance is the subjective relationship as perceived by the client and third parties.

Independence in fact enhances the reliability of financial statements whereas appearance promotes public confidence as to enable users rely on financial statements (Church and Zhang, 2002). According to Ezeike (2004), Appah (2008) and Salehi (2009), the concept of independence can be viewed from three dimensions. These include:

Programme independence: Auditors must remain free from interference by client managers who may intend to restrict, specify or modify the procedures the auditors want to perform including attempt to assign personnel or otherwise control the audit.

Reporting independence: The auditor must at all times not let any feelings of loyalty to the client or interfere with their obligations to disclose fully and fairly. Neither should management be allowed to exert pressure or over-rule auditors judgement on the content of an audit. In the same vein, Salehi (2009) state that the auditor should exercise.

Freedom from feeling of obligation to modify the impact or significance of reported facts; freedom from pressure to exclude significant matters from internal audit reports, avoidance of intentional or unintentional use of ambiguous language in the statement of facts, opinions and recommendations and in their interpretations and freedom from any attempt to overrule the auditor’s judgement as to either facts or opinions in the internal audit report.

Investigative independence: The auditor should have free access to all books, records, correspondence and other essential materials for their job. It also involve active co-operation from management personnel during audit examination; freedom any management attempt to specify activities to be examined or to establish the acceptability
of evidential matter and freedom from personal interests by the auditor leading to the exclusions from or limitations on the audit examination (Salehi, 2009). There are two approaches to the achievement of auditor independence. The rule based approach and the conceptual framework approach. There are two views under the rule based approach. The first view is to allow auditors some limited freedom to engage in selected professional involvement with their clients as adopted by SOX in the US. The second view is to restrict auditors from any involvement with their clients other than the performance of statutory audit. The conceptual approach is the setting of independence guidelines for auditors based on the fundamental principles of ethical behaviour implemented by most professional institutes.

Factors affecting independence: There are several factors that affect the independence of an auditor. These factors include contingent fee arrangements, gifts, opinion shopping, reporting relationships, etc. According to Salehi (2009) there are factors that affect the independence of auditor that have been studied. These factors include:

- The effects of gifts
- The purchase of discounts arrangement
- The audit firm size
- The provision of management advisory services by the audit firm
- The client financial condition
- The nature of conflict issue
- The audit firm’s tenure
- The degree of completion in the audit services market
- The size of the audit fees or relative client size
- The audit committee
- Practicing non-audit services by auditors

The audit failures that have been reported have led to major criticism of the profession worldwide by exposing the weakness of the profession in terms of safeguarding shareholders and stockholders interest thus this criticism arose as a result of the provision of non-audit services (Salehi and Moradi, 2010).

Non-audit services: Non-audit services may be any services other than audit provided by an auditor to an audit client. Public accounting firms expanded the scope of their services to include corporate and individual tax planning, internal audit outsourcing and consulting related to mergers and acquisitions, information system (Salehi, 2009). It is argued by many researchers that it is more economic for auditors to provide other additional services to their clients, since the auditor already has a good knowledge of their client’s business (Islam et al., 2005a). According to Beattie and Fearnley (2003), it is evident from studies that in some cases, fees received from non-audit services exceed the amount received from audit research. Table 1 and 2 shows the fees received by accounting firm from non audit services.

When audit and non-audit services are provided to the same client, the provider needs to be careful not to jeopardize their independence because there are occasions where independence may be threatened or appear to be threatened by the provision of services other than audit. Provision of some of these services might provide either a real or perceived threat to independence (Islam et al., 2005a; b). It is found that auditors believe that the auditors work would be used as a guide for investment, valuation of companies and in predicting, bankruptcy, etc.

Wahdan et al. (2005) say an auditor’s work facilitates the process of economic development through the presentation of reliable information concerning the financial position of the companies. Brierley and Gillian also noted that the globalization in accounting and assurance services has created the multi-disciplinary nature of large audit firms. According to Adeniyi (2004), Gupta (2005), Whittington and Pany (2001), Okezie (2008) and Salehi and Naghilo (2009), the range of services offered by auditors to the private and public sector include:

- Training
- Services for payroll

Table 1: Analysis of fee income of big 5 firms in US: 1990 and 1999

<table>
<thead>
<tr>
<th>Service category</th>
<th>Total fee income 1990 (%)</th>
<th>Total fee income 1999 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountancy and audit</td>
<td>53 71</td>
<td>34 48</td>
</tr>
<tr>
<td>Tax</td>
<td>27 17</td>
<td>22 0</td>
</tr>
<tr>
<td>Consultancy</td>
<td>20 12</td>
<td>44 32</td>
</tr>
<tr>
<td>Total</td>
<td>100 100</td>
<td>100 100</td>
</tr>
</tbody>
</table>

Beattie and Fearnley (2003)

Table 2: Analysis of fee income by service categories 2001-2002

<table>
<thead>
<tr>
<th>Firm</th>
<th>Total fee income</th>
<th>Audit/accountancy (%)</th>
<th>Tax (%)</th>
<th>Consultancy (%)</th>
<th>Insolvency (%)</th>
<th>Corporate finance (%)</th>
<th>Other (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deloitte and Touche</td>
<td>822.0</td>
<td>30.2</td>
<td>23.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6.5</td>
</tr>
<tr>
<td>KPMG</td>
<td>1372.6</td>
<td>30.2</td>
<td>20.1</td>
<td>24.8</td>
<td>5.3</td>
<td>6.6</td>
<td>13.0</td>
</tr>
<tr>
<td>Ernst and Young</td>
<td>722.2</td>
<td>39.6</td>
<td>38.6</td>
<td>-</td>
<td>-</td>
<td>21.8</td>
<td>-</td>
</tr>
<tr>
<td>Grant Thornton</td>
<td>204.5</td>
<td>30.7</td>
<td>30.7</td>
<td>-</td>
<td>18.6</td>
<td>10.8</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Beattie and Fearnley (2003)
Fig. 1: Areas of self interest threat (Okezie, 2008)

- Risk management advice
- Mergers and acquisition
- Taxation, including tax compliance and tax planning advice
- Public offering
- Portfolio monitoring
- System and information technology
- Forensic and litigation support
- Recruitment and human resources
- Transaction support and follow up
- Corporate governance
- Book keeping services

The provision of these services may provide threat to the independence of an auditor. Some the threats which may arise from the provision of non-audit services include:

**Self-interest threat:** An auditor’s independence may be threatened if the auditor benefits from a financial interest or some other self-interest conflict with an audit client. Islam et al. (2005b) argue that the perceived threat to independence grows with the amount of the ensuring fee payable and self-interest caveat is thus increased with the provision of non-audit services to the client. Okezie (2008) contend that there are great number of areas in which self-interest threat to independence might arise. Figure 1 shows these areas of threat.

**Self-review threat:** This is a type of threat that has to do with the inability of the auditor to identify and accept weaknesses and mistakes in a previous audit (Okezie, 2008).

In a similar vein, Islam et al. (2005a) opine that this threat relates to the difficulty of maintaining objectivity when conducting a self-review procedure. This may arise when any product or judgement from a previous audit assignment needs to be challenged or re-evaluated in reaching the current audit conclusions. Figure 2 shows these areas of threats.

Fig. 2: Areas of self-review threat (Okezie, 2008)

**Advocacy threat:** It is a threat where the auditor takes an advocate for or against the client’s position in any situation. For example, advocacy in any sharpened form is likely to threaten an auditor’s independence and appears to be in compatible with particular objectivity required by the audit reporting role (Islam et al., 2005b). The Fig. 3 shows the areas of threat.

**Familiarity threat:** This threat has to do with the auditor being over-influenced by the personality and qualities of the management (Okezie, 2008). The close relationship between the auditor and the client is a risk that the auditor may be influenced by the client’s business ambience. Figure 4 shows the areas of threats.
Table 3: Treatment of non-audit services in selected regulatory framework.

<table>
<thead>
<tr>
<th>Types of NAS in framework</th>
<th>IFAC</th>
<th>NZ</th>
<th>ICAEW</th>
<th>Australia</th>
<th>EC</th>
<th>SEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exercise management authority</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Determine client implementation of auditor's own recommendation</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Report in a management role to client governance body</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Custody of client asset</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
<td>No specific guidance</td>
<td>No specific guidance</td>
</tr>
<tr>
<td>Supervise client activity in normal activity</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
<td>No specific guidance</td>
<td>No specific guidance</td>
</tr>
<tr>
<td>Prepare accounting records and financial statements for public interest entities</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
</tr>
<tr>
<td>Valuation services and other export services</td>
<td>No if material</td>
<td>No if material</td>
<td>No if material</td>
<td>No if material</td>
<td>No if material</td>
<td>Normally no</td>
</tr>
<tr>
<td>Taxation services</td>
<td>Yes</td>
<td>Caution</td>
<td>Caution</td>
<td>Yes</td>
<td>No specific guidance</td>
<td>Caution</td>
</tr>
<tr>
<td>Internal audit services</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>Normally no</td>
<td>Normally no</td>
</tr>
<tr>
<td>IT services and financial information technology systems</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>No specific guidance</td>
<td>Normally no</td>
</tr>
<tr>
<td>Temporary staff assignments</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>No specific guidance</td>
<td>No specific guidance</td>
</tr>
<tr>
<td>Litigation support services</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>No specific guidance</td>
<td>No specific guidance</td>
</tr>
<tr>
<td>Legal services</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
<td>Normally no</td>
<td>No specific guidance</td>
<td>No</td>
</tr>
<tr>
<td>Recruiting senior management and HR</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Corporate finance and similar actuarial services</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>Caution</td>
<td>No specific guidance</td>
<td>No specific guidance</td>
</tr>
<tr>
<td>Actuarial services</td>
<td>No specific</td>
<td>No specific</td>
<td>No specific</td>
<td>No specific</td>
<td>No specific</td>
<td>No specific</td>
</tr>
<tr>
<td>Broker/dealer services</td>
<td>No specific</td>
<td>No specific</td>
<td>No specific</td>
<td>No specific</td>
<td>No specific</td>
<td>No specific</td>
</tr>
</tbody>
</table>

Islam et al. (2005a, b); No = Prohibited, Normally No = prohibited except in very limited or exceptional circumstances; No if material = Only permitted if the figures involved are not material to the financial statements; Caution = Threats and safeguards of each case should be considered before proceeding; Yes = Permitted; No specific guidance = Not referred to as NAS in framework therefore no specific guidance provided.

Salehi and Moradi (2010) stated that the Sarbanes Oxley Act of 2002 in the United States of America implemented the ban of nine audit services which include:

- Bookkeeping and other services related to the audit client’s accounting records
- Financial information systems design and implementation
- Valuation services and fairness opinions
- Actuarial services
- Internal audit services
- Management functions
- Human resource planning
- Broker-dealer services
- Legal services

The prohibition of these specific non-audit services is based on three principles:

- An auditor cannot function in the role of management
- An auditor cannot audit its own work
- An auditor cannot serve in an advocacy role for its client

Non-audit services and regulatory framework in Nigeria:

The provision of non-auditing services by firms of Chartered Accountants besides providing the regulatory audit service is a major issue in Nigeria like other countries.

This is basically due to how the provision of these services impairs the independence of auditors. The two major important non-audit services provided by auditors in Nigeria are tax advice and management consultancy. The question now is does the provision of these services in Nigeria impair the independence of auditors? The answer to this question lies on the issue of independence of mind and that of appearance.

An auditor that understands the Rules of Professional Conduct for Members issued by the Institute of Chartered Accountants of Nigeria may provide these services without basically affecting the independence in the provision of statutory audit. This is confirmed by the studies of Ghosh and Kallapur (2006). However, some scholars are of the opinion that the provision of non-audit services will affect the independence of auditors negatively. This is supported by Frankel et al. (2002), Brandon et al. (2004).

According to the Local Authority Pension Fund Forum (2010) there is a conflict of interest for auditors providing non-audit services to companies for which they provide audit services; a conflict of interest occurs when the auditor provides consultancy services for the
management at the same time as it undertakes an audit on behalf of the shareholders; the auditor in this case cannot be truly independent from the management since other commercial interests can compromise auditors in their ability to confront directors on difficult issues; the current ethical guidance on objectivity within the auditing profession is not sufficient to prevent significant concern being raised.

The Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN) have only successfully put in place code of conduct for their members that regulate their professional activities within the society. But there is no detailed regulation relating to the provision of non-audit services. Therefore, it is important that these professional accountancy bodies in Nigeria design and implement regulatory frameworks such as USA, UK, New Zealand, Australia, EC. The Sarbanes Oxley Act 2002 provided prohibited categories of Non-Audit Services (NAS).

**EMPIRICAL STUDIES**

Empirical studies have reported mixed results concerning the relationship between the provision of non-audit services and auditors’ independence. Some of these maintain that non-audit services impair objectivity as well as independence whereas others argue that there exists positive relationship between auditors independence and the provision of non-audit services. Table 4 shows a summary of methods, sample and main results for some of these prior research.

<table>
<thead>
<tr>
<th>Researcher(s)</th>
<th>Method and sample</th>
<th>Main results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ye et al. (2006)</td>
<td>A sample of 912 listed firms in Australia Stock Exchange using descriptive statistics, ordinary least square and logistic regression for the analysis of data collected on Non-Audit fee (NAS)</td>
<td>*The result shows that lengthy audit firm tenure, audit partner tenure and alumni affiliation are contributing factors that prompt auditees to purchase non-auditing services from their current auditors. *The results of analysis using going concern audit opinion prediction models are consistent with NAS and audit partner tenure being potential threats to auditors’ independence.</td>
</tr>
<tr>
<td>Duh et al. (2009)</td>
<td>The study employs audit fee data publicly disclosed by companies listed on the Taiwan Stock Exchange and GreTai securities market for 2004 and 2004. A sample of 37 firms for 2003 and 2004, respectively using descriptive statistics, Pearson correlation coefficient for the analysis of data</td>
<td>The regression analysis indicates that the coefficient for non-audit fees ratio is negative and significant in 2003 but not in 2004. Using non-audit fees instead of non-audit fees ratio to conduct the regression analysis yields similar results.</td>
</tr>
<tr>
<td>Knechel and Shamma (2008)</td>
<td>A sample of 5,495 firm year observations over the period 2000-2003 using ordinary least square regression, Pearson and Spearman Correlation coefficients and descriptive statistics for the purposes of data analysis</td>
<td>*The result shows that discretionary accruals and financial statements are decreasing in shorter audit report lags when non-audit services fees are higher. *Non-audit services is associated with shorter lags prior to the passage of SOX. *The link between non-audit services and audit report lag disappeared after SOX became effective.</td>
</tr>
<tr>
<td>Olivero and Newman (2002)</td>
<td>A sample 500 out of which only 89 questionnaires were collected and used for the analysis using descriptive statistics</td>
<td>Over 70% of the respondents of the survey believed that there was no impairment of independence if services related to financial information systems design implementation were completed.</td>
</tr>
<tr>
<td>Davis et al. (2004)</td>
<td>The study uses experimental asset markets to investigate whether investors perceive non-audit service fees to impair auditor independence. Eight experimental sessions were conducted, two for each of the four proportionate levels of non-audit services fees setting and six investors participated in each session</td>
<td>*The result shows that the disclosure of non-audit service fees reduce investors’ perceptions of auditor independence. *The level of non-audit service fees has a varying impact on investors’ perception of auditors independence, market efficiency and wealth distributions.</td>
</tr>
<tr>
<td>Salehi (2009)</td>
<td>A total of 488 questionnaires were collected from 227 auditors and 261 from shareholders using Mann-Whitney U-test for the purposes of data analysis</td>
<td>The result of the study shows that shareholders strongly agree that providing non-audit services by external auditors to the same clients strongly negatively affect audit independence.</td>
</tr>
<tr>
<td>Ghosh and Kailappur (2006)</td>
<td>A total of 14,398 for audit and non-audit fees. 10,735 for fees and compstat, 8918 for fees, compstat and CRSP and 2904 for fees, compstat, CRSP and governance. Using descriptive statistics, Pearson correlation matrix, cross section regression analysis for the analysis of data</td>
<td>The result shows that non-audit services are positively related to audit tenure and clients purchase more NAS from industry-specialist auditors, suggesting that economic efficiency factors are associated with NAS purchases.</td>
</tr>
<tr>
<td>Sinha (2009)</td>
<td>A sample of 262 firms and auditors respectively using descriptive statistics and regression analysis for the analysis of data</td>
<td>The result shows that the forume 500 firms whose auditors provide substantial non-audit services, tend to have a higher propensity to violate GAAP.</td>
</tr>
<tr>
<td>Duh et al. (2007)</td>
<td>The use of experimental approach using descriptive statistics, correlation analysis, regression model for the analysis of data</td>
<td>*Experiment 1 shows that auditors’ decision on the amount of allowance for doubtful accounts is negatively related with the provision of non-audit service in the area of information system design, installation and after maintenance. *Experiment 2 indicates no such effect of providing non-audit service.</td>
</tr>
<tr>
<td>Jenkins and Krawczyk (2006)</td>
<td>A total of 323 investors, non-Big 5 CPA firms and Big 5 CPA firms completed the study. Using chi-square, ANOVA, MANOVA for the analysis of data</td>
<td>The result shows that non-audit service had a positive influence on participants’ perceptions of auditors independence.</td>
</tr>
</tbody>
</table>
Table 4: Continue

<table>
<thead>
<tr>
<th>Researcher(s)</th>
<th>Method and sample</th>
<th>Main results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defond et al. (2002)</td>
<td>A sample of 2,428 firms Descriptive statistics and regression analysis for the</td>
<td>The result shows that no significant relationship between non-audit service fees and impaired auditor independence. Also no relationship between</td>
</tr>
<tr>
<td></td>
<td>analysis of data</td>
<td>going concern opinions and either total fee to controlling for endogeneity among the variables. The results indicate no positive association</td>
</tr>
<tr>
<td></td>
<td></td>
<td>between audit firm fees for FISDI or internal audit services and restatements. Positive association between other services fee restatement and</td>
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<td></td>
<td></td>
<td>a consistent negative association between tax services and restatements. Negative relationship between non-audit fees and accruals; positive</td>
</tr>
<tr>
<td></td>
<td></td>
<td>association between audit fees and accruals do not explain fees; positive relationship between fees; no significant associations in non-simultaneous</td>
</tr>
<tr>
<td></td>
<td></td>
<td>estimation; ratio insignificant.</td>
</tr>
<tr>
<td>Kinney et al. (2003)</td>
<td>Using detailed confidential fee data for 432 registrants and 512 similar</td>
<td></td>
</tr>
<tr>
<td></td>
<td>registrants without restatements</td>
<td></td>
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</tbody>
</table>

CONCLUSION

This study examines the effect of the provision of non-audit services on the independence of auditors. The client appoints the auditor for the provision of statutory audit and non-audit services. The provision of non-audit services by auditors is said to impair the independence of the auditor. Thus auditors have market-based incentives to remain independent but independence may be threatened when non-audit services are provided to their clients and it is reasonable that the non-audit services actually impair independence. This argument has brought about mixed reactions on this topic.

Several prior studies have argued that the provision of non-audit services do not affect the independence of the auditor (Ghosh and Kallapur, 2006). Opponents of the provision of non-audit services and independence of the auditor (Frankel et al., 2002; Salehi, 2009) argue that the provision of non-audit services affect the independence of auditors. The provision of non-audit services has been banned in many countries around the world.

The issue of paramount importance is that banning the provision of non-audit services by the same auditor does not solve the problem of corporate failures rather countries should look inwardly on the complex nature of the modern business environment, regulatory framework and in particular a thorough x-ray of the profession in terms of the moral standards of members admitted into the profession. In conclusion there is no need for a complete prohibition on auditors providing non-audit services rather there should be improved disclosure, transparency and governance around the subject of non-audit fees, policy and procedures. There is also the need for auditors to improve on their moral capacity in the conduct of professional engagements with clients.

REFERENCES


Local Authority Pension Fund Forum, 2010. Consultation on audit firms providing non-audit services to listed companies that they audit. Accountancy Practice Board Discussion Paper.


