Perceptions of auditor independence in Barbados

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Abstract
Purpose – The study investigates the perceptions of auditor independence (PAI) between auditors and users in Barbados.

Design/methodology/approach – A self-administered questionnaire was adapted and modified from Beattie et al.’s study in the UK the sample included 66 auditors and 148 users. Factors relating to the size and closeness of Barbadian society, lengthy tenure and being a sole audit practitioner, small audit firm, provision of non-audit services (NAS) among others, were investigated.

Findings – Economic dependence of auditor on the client, the provision of NAS, high competition, small firm size, being a sole practitioner, lengthy tenure and the size and closeness of Barbadian society were found to negatively affect PAI. Auditor independence was perceived to be enhanced by the existence of audit committees, rotation of audit partners, risks to auditor arising from poor quality, regulatory rights and requirements surrounding auditor change and an auditor’s right to attend and be heard at the company’s annual general meetings.

Research limitations/implications – Owing to the relatively small sample size and small emerging market, these findings should be interpreted with caution.

Practical implications – This research serves to inform audit related policies and regulation on the potential threats to auditor independence.

Originality/value – This paper contributes to the limited body of research on auditor independence in small developing countries.

Keywords Barbados, Auditors, Developing countries

Paper type Research paper

Introduction
Auditor independence has been a major concern for a long time. In recent times, it has become more pronounced, given the collapse of Enron, which resulted in the closure of Arthur Andersen, one of the major international accounting firms (Vinten, 2003). Auditor independence has been defined as the ability to resist client pressure (Knapp, 1985). Similarly, Independence Standards Board (ISB) (2000) defined auditor independence as the:

… freedom from those pressures and other factors that compromise, or can reasonably be expected to compromise an auditors’ ability to realize unbiased audit decisions.

Auditor independence has been assessed based on two standards, that is, fact and appearance. 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 (see
Arens et al. (2006) and Whittington and Pany (2004) for a wider explanation of these concepts).

The aim of this paper is to investigate the appearance standard by empirically exploring both auditors’ and users’ perceptions of auditor independence (PAI) in Barbados. Most of the research on this topic has been done in large Anglophone countries such as USA and UK (Beattie et al., 1999; Bartlett, 1993; Pany and Reckers, 1988). Small developing countries like Barbados are deficient in research on this contentious issue. More specifically, within the context of Barbados, Alleyne (2002) has performed the only work to date on this issue, as it exists in Barbados. In view of the above, Barbados has been chosen as an ideal case for research. Moreover, the study has theoretical and practical significance. Firstly, the study will contribute to the existing body of knowledge in terms of providing a better understanding of the nature of auditor independence in small developing countries. Secondly, this study can inform policy makers, governments and professional accounting bodies as to how auditor independence policies and frameworks can be structured to ensure adequate regulation of the capital market. Thirdly, the paper will serve to educate users and auditors about the contextual factors surrounding the role of auditor as well as the possible threats and enhancements factors affecting auditor independence.

The rest of this paper is structured as follows: Theoretical framework section sets out the theoretical framework and Selective literature review section provides a selective review of the audit literature. Research setting section highlights key facts about Barbados. Research methodology section explains the research methodology. Findings and discussion section presents the findings and analysis and Conclusion section concludes the study by setting out the conclusions, limitations and further research.

**Theoretical framework**

One relevant theoretical framework that will be used to guide this research paper is role conflict theory. Role conflict theory is based on the following assumptions: the auditor is required to monitor the client’s financial statements and the public expects the auditor to faithfully carry out that role (Koo and Sim, 1999). The auditor has to serve two opposing interests, client companies and the general public. Rizzo et al. (1970) identified several role conflicts. Firstly, there exists conflict between a particular role and the individual’s values – person-role conflict. Secondly, there exists intra-sender role conflict, which concerns multiple roles being allocated to an individual. Thirdly, role-overload conflict is where many roles are imposed on the individual, considering his or her capacity to fulfill them in light of available resources. Fourthly, Koo and Sim (1999, p. 207) stated that:

… inter-sender role conflict, appearing through mutually opposing expectations of role, conflicting policies and needs of others, and incompatible criteria.

The most important conflict for the auditor is the inter-sender role conflict. This is where the auditor is expected to satisfy both the needs of the client management and the third party users. Third party users expect the auditor to find and report all problems with the financial statements while management wants the auditor to ignore financial statements manipulation (Koo and Sim, 1999). Thus, at times, the auditor needs to choose from these conflicting needs. The auditor’s role conflict may negatively impact the auditor’s independence and the ability to conduct a just audit (Schultz, 1974). If the auditor tries to be adamantly ethical in a situation of conflict, management may
seek to replace the auditor. As a result, the auditor may buckle under management’s pressure, resulting in a compromise of auditor independence.

Three major conflicts of interest, which worked against auditor independence, were advanced by Goldman and Barlev (1974). These include conflicts between auditors and firms, owners and managers, as well as conflict between the auditor’s economic motives and audit criteria. Thus, auditor independence may be compromised when conflicting interests arise as to what is the auditor’s role.

**Selective literature review**

Independence is critically important to an auditor as it is regarded as being one of the fundamental principles underlying the auditor’s work (Firth, 1980, p. 451). The financial markets must have confidence in the integrity and objectivity of auditors. Without definite independence, audits have little value. Recently, researchers, regulators and the public have been concerned about auditor independence in the current audit environment where severe audit failures like Enron and WorldCom, have emerged.

Several regulatory bodies have recently established new independence standards, since the general setting, within which auditor independence perceptions are formed, is subject to continuous change (IFAC, 2001; ICAEW, 2001). The reform of the regulatory framework for auditing and accounting and of the ethical guidelines is an ongoing process (Beattie et al., 1999, p. 68).

The critical issue is how users perceive auditors’ independence and whether it adversely affects or erodes the public’s confidence in auditors. Professional accounting bodies have pointed out areas where independence might be compromised such as cases where there are unpaid fees, personal relationships, conflicts of interest and high financial involvement in clients (AICPA, 1978; ICAEW, 2001).

The appearance standard rests on the role of perception. Regulators and standard-setters must be concerned with the accuracy of the public’s perception of auditing firms. Empirically speaking, regulators and standard-setters are not especially challenged by either the ideal situation, where auditors are in fact independent by the public or, alternatively, where auditors lack independence in fact and also are perceived to lack independence.

The auditor is required to express an opinion on the financial statements as to whether they are presented fairly or not. It is assumed that he or she is independent and acts honestly. Independence is a function of the auditor’s mental attitude, and one must look at the various factors which influences the auditor’s behaviour to determine whether his psychological makeup allows him to be objective, honest and independent, if not at all. Thus, it is necessary to consider the position advanced by behaviourists. The literature has shown that key factors to be considered include consequentialism and deontology (Moizer, 1997), cognition (Dillard and Yuthas, 1997; Moore et al., 2003) and structuration (Giddens, 1984). ICAEW (2001) and IFAC (2001) identified a framework consisting of five main threats to independence or objectivity, being self-interest, self-review, advocacy, familiarity or trust, and intimidation threats.

There is an extensive amount of academic literature on auditor independence (Firth, 1980; Shockley, 1981; Knapp, 1985; Gul, 1989; Lindsay, 1992; Bartlett, 1993; Geiger and Rama, 2003). Many studies have sought to identify the factors that may impact auditor independence in appearance. The objective of these studies has been to survey whether the auditors appear to be independent (i.e. based on perceptions).
Interestingly, most studies have focused on identifying the factors that form a potential threat to auditor independence in appearance. However, little attention has been paid to the factors that enhance the financial statement users’ PAI (Gul, 1989; Beattie et al., 1999).

Beattie et al. (1999) measured interested parties’ perceptions of the influence on auditor independence of a large set of 45 economic and regulatory factors among finance directors, audit partners and financial journalists. The authors found that the principal threat factors were related to economic dependence and non-audit service (NAS) provision, while the principal enhancement factors related to regulatory changes such as the presence of an audit committee, the risk of referral to the Financial Reporting Review Panel and the risk to the audit firm of loss of Registered Auditor Status.

Beattie et al. (1999, p. 71) stated that:

… the four principal factors believed to impact auditor independence are: the economic dependence of the auditor on the auditee, competition within the external audit market, the provision of NAS (non-audit services) by the auditor, and the degree of laxity of the regulatory framework.

Economic dependence can be reflected by the significant proportion of the auditor’s total fees paid by any one client as a stronghold, competitive pricing by auditors, tender threats by auditees and budget pressures faced by auditors.

The provision of NAS has been subject to great debate, as it places an economic bond between auditor and auditee, thus resulting in financial dependence on the client. A few empirical studies have concluded that the provision of NAS to audit clients has enhanced the risk of perceived dependence (Shockley, 1981; Schulte, 1965; Pany and Reckers, 1983; Pany and Reckers, 1984). However, some empirical studies found that NAS have minimal adverse effects on the PAI (Pany and Reckers, 1988; Dopouch and King, 1991; Lowe and Pany, 1995).

Other factors that are likely to impair PAI include lengthy tenure (Teoh and Lim, 1996), the client’s financial condition (Knapp, 1985), unpaid fees, existence of audit committees and disclosure of non-audit fees (Teoh and Lim, 1996; Beattie et al., 1999); firm size (Beattie et al., 1999), financial interest in auditee (Lindsay et al., 1987), size and closeness of society by Canning and Gwilliam (1999) in Ireland and Alleyne (2002) in Barbados. Most of this research has been quantitative perceptual studies.

Regulatory factors have been found to enhance auditor independence in other countries. These factors include the existence of audit committees (Cadbury Report, 1992), control over the appointment and remuneration of auditors, strong enforcement of standards and effective discipline of companies and auditors (APB, 1994).

While Firth (1980) and Bartlett (1993) focused on the independence threatening factors, this research expands the approach by examining also the independence enhancing factors affecting the financial statement users’ PAI similar to Gul (1989) and Beattie et al. (1999). More importantly, this research has implications for widening our understanding of independence in small emerging markets. To date, research has been done in many countries, including Lindsay (1992) in Canada, Gul (1989) in New Zealand, Teoh and Lim (1996) in Malaysia, Beattie et al. (1999) and Firth (1980) in the UK, Hudaib (2003) in Saudi Arabia and Bartlett (1993) in the USA, to name a few.
Research setting
Barbados, a small island of 166 square miles in the Southern Caribbean, is a former British colony, and home to a well-educated population, which enjoys 99 percent literacy. In mid 1997, the population was estimated at 265,000, making it one of the most densely populated countries in the world with 1,596 persons per square mile.

Barbados has a stable political system, and a small open economy with the key productive sectors of tourism, agriculture, manufacturing and offshore financial services. The success of the economy is driven, inter alia, by a plethora of businesses of varying sizes, which have to rely on auditors to give sound professional opinion (Alleyne, 2002, p. 63). Most public and private limited companies are members of the Barbados Chamber of Commerce.

The Institute of Chartered Accountants of Barbados (ICAB) is the regulatory body for the accounting profession in Barbados. ICAB is a member of the International Federation of Accountants and all of its members are members of other recognized accountancy bodies, primarily in the UK, USA and Canada. As of December 31, 2003, ICAB had a membership of over 500 fully qualified chartered accountants, of which 175 persons held practicing certificates to audit. There are varying sizes of audit firms including the four major international audit firms of PricewaterhouseCoopers, KPMG, Ernst and Young and Deloitte.

Research methodology
Instrument and procedures
The literature reveals that the dominant method of research was the quantitative questionnaire (Firth, 1980; Beattie et al., 1999). The research used a self-administered quantitative survey similar to that of Beattie et al. (1999). Saunders et al. (2003, p. 92) pointed out that the quantitative survey “is a popular and common strategy in business and management research,” and surveys enable “easy comparisons and appear to be authoritative.” The survey instrument was divided into two sections: section 1 dealt with demographic and background information including member status (auditor or user), gender, job title, qualifications, years of experience, age and the number of accounting courses completed. Similar to studies done by Beattie et al. (1999) and Bartlett (1993), “the number of accounting courses completed” was used as a proxy for accounting knowledge.

Section 2 focused on 39 audit-related issues categorized under a number of generic factors including economic dependence of the auditor on the auditee (ECDEP), high level of competition within the external audit market (COMP), provision of NAS by auditor (NAS), flexibility of accounting standards (FLEX), audit firm size (AUDSIZE), audit committee (AC), financial interest in client (FININT), directors’ de facto control of auditors’ appointment and remuneration (DIRCON), large size/high status of client (CLIENT), costs to company of auditor change (AUDCH), regulatory rights and requirements surrounding auditor change (AUDCHREG), risks to auditor arising from poor quality audit (AUDRISK), regulations concerning the appointment and remuneration of auditors (AUDREG) and OTHER (issues under this category that were introduced namely, “the auditor has been auditing the client for more than 10 years (lengthy tenure)” and “the size and closeness of Barbadian society”). These two issues were deemed relevant in this study as pointed out in a previous study conducted by Alleyne (2002), where respondents during qualitative interviews highlighted these themes as important factors affecting independence.
Respondents were expected to indicate the extent to which each of these issues, in their personal view, affected auditor independence (negatively or positively). Their response options were in the form of a five point Likert type scale:

1. seriously undermines independence;
2. slightly undermines independence;
3. no effect on independence;
4. slightly enhances independence; and
5. strongly enhances independence.

Similar to that of Beattie et al. (1999), it was decided that an ordinal scale, instead of a dichotomous one, would better fit the purposes of this study.

Hypotheses
This research uses a framework of auditor independence, which includes independence threatening and enhancing factors. This research addresses the issue of auditor independence by evaluating the financial statement users’ PAI. By using Beattie et al.’s (1999) framework (with some modifications for the Barbadian context), this study seeks to measure and understand the impact of the hypothesized threatening and enhancement factors:

**H1a.** Economic dependence of auditor on the auditee (ECDEP), high level of competition within the external audit market (COMP), the provision of NAS by the auditor, small audit firm size (AUDSIZE), flexibility of accounting standards (FLEX), unpaid audit fees (FININT), and strong financial condition of the client will negatively affect PAI.

**H1b.** Tenure (auditing the client for more than 10 years), being a sole practitioner and the size and closeness of Barbadian society will negatively affect PAI.

**H2.** The existence of an audit committee, costs to company of auditor change (AUDCH), regulatory rights and requirements surrounding auditor change (AUDCHREG), risks to auditor arising from poor quality audit (AUDRISK), regulations concerning the appointment and remuneration of auditors (AUDREG), disclosure of NAS fees, and auditors’ rights at General Meeting will positively affect PAI.

**H3.** Auditors will perceive fewer threats to auditor independence, compared to users.

Saunders et al. (2003) suggested that postal surveys achieved response rates of between 10 and 50 percent. All questionnaires were pre-numbered in order to follow-up non-responses; a cover letter was attached detailing the nature of the study and assuring confidentiality. In the present study, the researchers conducted follow-ups via telephone, e-mail and fax to achieve a satisfactory response rate.

Sample
The sampling population identified for this study comprised several groups such as auditors, financial directors, credit managers, investment analysts, fund managers,
shareholders, and government departments similar to studies done by Firth (1980), Beattie et al. (1999) and Hudaib (2003). The auditors can be divided into three groups of large, medium and single practitioners. Large size firms of accountants include Ernst and Young, KPMG Peat Marwick, PriceWaterhouseCoopers and Deloitte and Touche representing the Big Four firms. Medium size firms include small international firms of Pannell Kerr Forster, Porter Hetu International and Grant Thornton, and other indigenous local firms. The small and single practitioners made up the final group. The loan officers of the banks, financial institutions and credit unions were also accessed. Also, the directors of the 26 public limited companies and the other private limited companies, as well as all major stockbrokers and investment managers including insurance companies and unit trusts were targeted.

Statistical tests
Exploratory data analysis was conducted to determine whether the data (from the 39 audit factors) adequately fit parametric assumptions. To test for the normality assumption, standardized measures of skewness (i.e. skewness values divided by respective standard errors) were computed and no variable was found to deviate severely from normality (all standardised estimates of skewness were less than 1.96, indicating that variables were approximately normal). Further, results from Kolmogorov-Smirnov tests were all non-significant for the 39 variables measured, indicating that variables did not differ significantly from a normal distribution. Levene’s tests were revealed to be non-significant, indicating that assumption of homogeneity was not broken. The independent samples t-test was used as the main statistical tool in the analysis of differences between the perceptions of auditor and user groups. In order to test for internal consistency, Cronbach a were computed for each audit-related factor (with the exception of those factors that were single-item measures). Reliability estimates were deemed adequate, indicating high internal consistency (all $\alpha > 0.7$).

Findings and discussion
The sample comprised 66 auditors and 148 users. Of the 66 auditors, 53 percent represented auditors of the Big four firms. Of the 148 users, 50.7 percent came from the banking sector. Table I shows the demographic data for the auditor and user groups in the sample. Among auditors, there were twice as many males than females in the auditor group, while in the user group there were slightly more females than males. About 71 percent of the auditors had more than 6 years auditing experience, and the same proportion of users had the same amount of experience in their particular fields. Our sample showed that more than 76 percent of the auditors had done more than 10 accounting courses, which is quite understandable, given the profession’s requirements for qualifications. In contrast, 72 percent of the users had completed less than ten accounting courses.

Mean scores and ranks are presented in Table II for the two samples (auditors and users), with respect to their views on the impact of 39 audit environmental factors on auditor independence. Factors are classified into two sections: section A includes those factors which respondents consider to undermine auditor independence (means less than three), whereas section B includes those factors which respondents believe to enhance auditor independence (means greater than three). Factors are listed in rank order for the auditor sample (in the column 3).
With respect to the factors identified as undermining independence (section A), both auditor and user groups rank highest (rank one) the economic dependence factor relating to auditor’s income being dependent on the retention of a specific client. The auditor group also ranked highly, among factors undermining independence, (in decreasing order) the provision of NAS in excess of 100 percent of audit fee (NAS), economic dependence relating to more than 10 percent of the firm’s revenues from one client (ECDEP), economic dependence relating to importance of client to auditor’s overall portfolio (ECDEP), the provision of NAS greater than or equal to 50 percent of audit fee (NAS), and the auditor’s desire not to lose status by losing key client (ECDEP). With the exception of the factor highlighting the provision of NAS greater than or equal to 50 percent, these factors were also ranked highly (among the top five), albeit in a different order, by the user group.

Flexibility of accounting standards (FLEX) and CLIENT factor (private limited company) were ranked near bottom by auditors, indicating that the importance of these factors undermining independence was minimal. The two main factors measuring costs to the company associated with auditor change (ADCH) (i.e. risks of adverse market reaction due to change and management time and costs incurred by changes) were also ranked low by both groups.

Three new factors included in the questionnaire relating to AUDSIZE (being a sole practitioner) (ranked in 8th and 9th position by user and auditor groups, respectively), long tenure (auditing for the client for more than 10 years) (ranked in 10th position by both users and auditors) and the size and closeness of Barbadian society (ranked in 10th position and 12th position by users and auditors, respectively) were ranked modestly by the two groups.

In section B, among factors identified as enhancers of independence, both auditors and users attached highest importance to the existence of an audit committee composed of non-executive directors, majority of whom are independent. The four main factors relating to risks to auditor from poor quality audit (AUDRISK) were among high rankers established by both groups. Rotation of audit partners (at least every 7 years) (AUDREG) was also identified as highly important in promoting auditor independence.
<table>
<thead>
<tr>
<th>Factors undermining independence</th>
<th>Auditor rank</th>
<th>User rank</th>
<th>Mean score Auditors</th>
<th>Mean score Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. CDEP: partner’s income depends on the retention of a specific client</td>
<td>1</td>
<td>1</td>
<td>1.77</td>
<td>1.93</td>
</tr>
<tr>
<td>2. NAS: non-audit services from incumbent ≥ 100 percent audit fee</td>
<td>2</td>
<td>3</td>
<td>1.80</td>
<td>2.01</td>
</tr>
<tr>
<td>3. ECDEP: ≥ 10 percent of total firm revenues from one client</td>
<td>3</td>
<td>5</td>
<td>1.97</td>
<td>2.16</td>
</tr>
<tr>
<td>4. ECDEP: client is important to auditor’s overall portfolio</td>
<td>4</td>
<td>4</td>
<td>2.02</td>
<td>2.14</td>
</tr>
<tr>
<td>5. NAS: non-audit services ≥ 50 percent audit fee</td>
<td>5</td>
<td>8</td>
<td>2.05</td>
<td>2.25</td>
</tr>
<tr>
<td>6. ECDEP: auditor’s desire not to lose status by losing key client</td>
<td>6</td>
<td>2</td>
<td>2.06</td>
<td>1.99</td>
</tr>
<tr>
<td>7. COMP: audit fee discounting and low-balling</td>
<td>7</td>
<td>5</td>
<td>2.15</td>
<td>2.16</td>
</tr>
<tr>
<td>8. NAS: provision of executive search and appointment services by incumbent auditor</td>
<td>8</td>
<td>14</td>
<td>2.29</td>
<td>2.53</td>
</tr>
<tr>
<td>9. AUDSIZE: being a sole practitioner</td>
<td>9</td>
<td>8</td>
<td>2.33</td>
<td>2.25</td>
</tr>
<tr>
<td>10. Auditor has been auditing the client for more than 10 years</td>
<td>10</td>
<td>10</td>
<td>2.36</td>
<td>2.30</td>
</tr>
<tr>
<td>11. COMP: budget pressures imposed by audit firm on staff</td>
<td>11</td>
<td>5</td>
<td>2.38</td>
<td>2.16</td>
</tr>
<tr>
<td>12. The size and closeness of Barbadian society</td>
<td>12</td>
<td>10</td>
<td>2.39</td>
<td>2.30</td>
</tr>
<tr>
<td>13. NAS: non-audit services from incumbent ≥ 25 percent audit fee</td>
<td>13</td>
<td>13</td>
<td>2.48</td>
<td>2.49</td>
</tr>
<tr>
<td>14. FININT: unpaid audit fees</td>
<td>14</td>
<td>12</td>
<td>2.50</td>
<td>2.41</td>
</tr>
<tr>
<td>15. DIRCON: directors’ de facto control of auditors’ appointment</td>
<td>15</td>
<td>17</td>
<td>2.59</td>
<td>2.74</td>
</tr>
<tr>
<td>16. DIRCON: directors’ de facto control of auditors’ remuneration</td>
<td>16</td>
<td>16</td>
<td>2.61</td>
<td>2.66</td>
</tr>
<tr>
<td>17. AUDSIZE: small local audit firm</td>
<td>17</td>
<td>14</td>
<td>2.67</td>
<td>2.53</td>
</tr>
<tr>
<td>18. COMP: competition among audit firms</td>
<td>18</td>
<td>21</td>
<td>2.80</td>
<td>2.82</td>
</tr>
<tr>
<td>19. Client is in a weak condition</td>
<td>19</td>
<td>19</td>
<td>2.86</td>
<td>2.80</td>
</tr>
<tr>
<td>20. AUDCH: Management time and costs incurred in changing auditors</td>
<td>20</td>
<td>22</td>
<td>2.92</td>
<td>2.89</td>
</tr>
<tr>
<td>21. AUDCH: risk of adverse market reaction to frequent auditors changes</td>
<td>21</td>
<td>19</td>
<td>2.94</td>
<td>2.80</td>
</tr>
<tr>
<td>22. Size/status: private limited company</td>
<td>22</td>
<td>23</td>
<td>2.95</td>
<td>2.97</td>
</tr>
<tr>
<td>23. FLEX: flexibility of accounting standards set by International Financial Reporting Standards (IFRS)</td>
<td>22</td>
<td>17</td>
<td>2.95</td>
<td>2.74</td>
</tr>
</tbody>
</table>

Table II. Perceptions of auditors and users

Section B
Factors enhancing independence
24. AC: existence of audit committee composed of non-executive directors, a majority of whom are independent | 1            | 1         | 4.15                | 4.06            |
25. AUDREG: rotation of audit partners (at least every 7 years) | 2            | 4         | 3.94                | 3.76            |
26. AUDRISK: risk of litigation against auditor | 3 = 2        |        3.85 |                    | 3.80            |
27. AUDRISK: risk to auditor of disciplinary action by professional body | 3 = 3        |        3.85 |                    | 3.77            |

(continued)
<table>
<thead>
<tr>
<th>Section A</th>
<th>Auditor rank</th>
<th>User rank</th>
<th>Mean score Auditors</th>
<th>Mean score Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>28. AUDRISK: risk to auditor of loss of practicing certificate</td>
<td>5</td>
<td>4</td>
<td>3.82</td>
<td>3.76</td>
</tr>
<tr>
<td>29. AUDRISK: risk of damage to auditors' reputation from public scandals</td>
<td>6</td>
<td>4</td>
<td>3.79</td>
<td>3.76</td>
</tr>
<tr>
<td>30. AUDREG: requirement of auditors to be reappointed annually</td>
<td>7</td>
<td>9</td>
<td>3.71</td>
<td>3.70</td>
</tr>
<tr>
<td>31. AUDCHREG: requirement for incoming auditor to communicate with outgoing auditor before accepting nomination or appointment</td>
<td>8</td>
<td>12</td>
<td>3.62</td>
<td>3.57</td>
</tr>
<tr>
<td>32. Auditors right to attend and be heard at company’s annual general meeting</td>
<td>9</td>
<td>4</td>
<td>3.59</td>
<td>3.76</td>
</tr>
<tr>
<td>33. AUDCHREG: auditors’ right to require the statement of circumstances by auditor ceasing to hold office to be circulated to members</td>
<td>10</td>
<td>10</td>
<td>3.58</td>
<td>3.64</td>
</tr>
<tr>
<td>34. AUDSIZE: being a big four international firm</td>
<td>11</td>
<td>4</td>
<td>3.50</td>
<td>3.76</td>
</tr>
<tr>
<td>35. AUDCHREG: requirement for statement of circumstances by auditor ceasing to hold office, and this to be filed at company registry</td>
<td>11</td>
<td>11</td>
<td>3.50</td>
<td>3.61</td>
</tr>
<tr>
<td>36. AUDCHREG: auditors’ removal from office requiring a special resolution at a general meeting</td>
<td>13</td>
<td>13</td>
<td>3.41</td>
<td>3.49</td>
</tr>
<tr>
<td>37. AUDSIZE: being a non-big four international firm</td>
<td>14</td>
<td>14</td>
<td>3.18</td>
<td>3.28</td>
</tr>
<tr>
<td>38. Disclosure of non-audit fees paid to the auditor</td>
<td>15</td>
<td>16</td>
<td>3.11</td>
<td>3.24</td>
</tr>
<tr>
<td>39. Size/status: public limited company</td>
<td>16</td>
<td>15</td>
<td>3.03</td>
<td>3.25</td>
</tr>
</tbody>
</table>

**Note:** Results for all factors were non-significant ($p > 0.05$)
Auditors’ right to attend and be heard at company’s annual general meetings were ranked higher by the users than by the auditors. Three factors relating to regulatory rights and requirements surrounding auditor change (AUDCHREG) (i.e. requirement for statement of circumstances by auditor ceasing to hold office to be circulated to members, and to be filed at company registry, and auditors’ removal from office requiring a special resolution at a general meeting), being a non-big four international firm, the disclosure of non-audit fees paid to the auditor, and clients in the form of public limited companies were ranked among the lowest by both groups.

With respect to the hypotheses, the results provided substantial support for $H1a$, $H1b$ and $H2$. In Table II, results from independent $t$-tests revealed that there were no statistically significant differences between the perceptions of auditors and users, with regard to the identified factors (all $p > 0.05$). This finding may indicate a general consensus between auditors and users concerning the factors responsible for undermining (and enhancing) auditor independence. Hence, $H3$ was not confirmed. This finding was not consistent with Beattie et al. (1999), who found that preparers (auditors and finance directors) were likely to perceive less threats to auditor independence compared to users. Reasons for this consensus in Barbados may include shared cultural values, education and societal norms (Beattie et al., 1999) and the small size and closeness of the Barbadian society (Alleyne, 2002).

Particularly, economic dependence and provision of NAS were perceived as the strongest threat factors affecting independence; this finding remains consistent with similar studies done in the UK (Beattie et al., 1999), Czech Republic (Sucher and Kosmala-MacLullich, 2004) and Ireland (Canning and Gwilliam, 1999). It is also not surprising that two factors relating to the provision of NAS were ranked highly among the four main economic dependence measures since it was argued in the past that this element (provision of NAS) was largely responsible for the strong economic relationship between the auditor and auditee (Beattie et al., 1999; Clikeman, 1998). In corroboration, Clikeman (1998) stressed that provision of management advisory services and other NAS increases the auditor’s dependence on the client. Umar and Anandarajan (2004, p. 103) explained:

...the more services ... [an audit firm] ... performs for a client, the more pressure the audit partner will face to accept a client’s aggressive accounting treatment.

However, these findings were not substantiated in the past by Alleyne (2002) where the perceptions of Barbadian auditors were investigated. Majority of them disagreed with the view that providing NAS would impair their independence judgments.

High competition within the audit market and small audit firm size were ranked relatively low to moderate by both auditors and users as potential threat factors, consistent with Beattie et al. (1999). Beattie et al. (1999) highlighted that competition was seen as somewhat important in affecting auditor independence. The finding that small audit firm size was perceived to affect auditor independence was also consistent with Gul (1989). Gul (1989) argued that large audit firms were perceived as more independent, compared to smaller audit firms, because larger firms were seen as less dependent on certain clients. A body of research (Mautz and Sharaf, 1961; Shockley, 1981) has documented evidence supporting the view that the size of the firm may be a constraint to independence due to the close relationship that is likely to develop with a smaller firm, compared to a larger firm. In addition, there is a perception that smaller
firms would be more unlikely to resist client pressure due to the heavy economic
dependence on any one client – a possible link between firm size and economic
dependence (Beattie et al., 1999; DeAngelo, 1981).

Flexibility of accounting standards was not seriously viewed as a major threat to
auditor independence in the present study (similar to Beattie et al., 1999). Unpaid audit
fees, although mid-way down the rankings, was still identified to some extent an
important threat factor, not supportive of the finding in Beattie et al. (1999). Client’s
(weak) financial condition was ranked 19th out of the 23 identified threat factors by
both auditors and users. Although the ranking was low, this conflicts with the findings
of Knapp (1985). Knapp (1985) found that in situations where there is a conflict between
auditor and client, the stronger the financial condition of client, the more likely the
perceived outcome of the audit would be consistent with the client’s preference.

The study also explored three other factors including lengthy tenure, being a sole
practitioner and the size and closeness of Barbados, not explicitly explored in
Beattie et al. (1999). These three factors, to a moderate degree, were also found to
undermine PAI in the current study. In particular, this finding, which highlights the
significance of the small size and closeness of Barbadian society to PAI, remains
consistent with that of Alleyne (2002). Alleyne (2002, p. 71) found that Barbadian
auditors agreed that the size of the Barbadian market “placed auditors in a difficult
position because of competition amongst audit firms to acquire new clients and keep
them”. However, lengthy tenure was seen as desirable for most auditors in Alleyne
(2002), because they believed that this allowed them to be more familiar with the
operations of their clients. The present study also revealed that sole audit practitioners
and the small audit firms were perceived to be less independent, because of the high
dependence on the client and the possible absence of formal protocol and regulations
(e.g. organisational code of behavior/ethics), compared with large audit firms.

Most the factors that were perceived to enhance independence remain consistent
with past studies (Alleyne, 2002; Beattie et al., 1999; Goldman and Barlev, 1974). Existence
of audit firm committees was the number one factor perceived to enhance
independence. Goldman and Barlev (1974) argued that the need for audit committees be
recognised as a countervailing force against the environmental pressures facing many
auditing firms resulting in impaired independence. Further, Alleyne (2002) also found
that the presence of an audit committee was perceived as a major enhancement factor.
Other similar factors, highlighted in the present study as high-ranking enhancement
factors, were those relating to regulatory rights and requirements surrounding auditor
change, regulations concerning the appointment and remuneration (e.g. rotation of
audit partners)(AUDREG), risks to auditor arising from poor quality (AUDRISK), and
auditors’ right to attend and be heard at company’s annual general meeting. These
factors were perceived in the same light as in Beattie et al. (1999).

Perceptions of factors enhancing and undermining auditor independence can be
linked to role conflict theory. For example, the respondents’ perceptions of economic
dependence, provision of NAS and lengthy tenure as major threat factors can be linked
to the view that these issues represent potential conflict situations between the role of
the auditor (i.e. to be independent) and the preferences of the client. The auditor is in
conflict because he or she must firstly serve the professional regulations and rules
governing auditor independence. Then, this must be balanced against his or her role as
the “watchdog” who should be serving the interests of the users and the client as well as looking after his or her own self-interest.

Furthermore, Koo and Sim (1999) argued that role conflict may arise because of the expectation gap that exists between the auditors and users. Users expect auditors to serve the public and to uncover management fraud (Mills and Bettner, 1992, p. 188). Users’ expectations and auditors’ performance have created the expectation gap. There is role conflict when the auditor is unable to satisfy all the responsibilities expected by users. Sikka et al. (1992) argued that the expectation gap cannot be totally eliminated due to different views, inconsistent systems, and unfair distributions of power and wealth.

Conclusion
Economic dependence of auditor on the client, the provision of NAS, high competition, small firm size, being a sole practitioner, lengthy tenure and the size and closeness of Barbadian society were found to negatively affect PAI. In contrast, auditor independence was perceived to be enhanced by the existence of audit committees, rotation of audit partners, risks to auditor arising from poor quality, regulatory rights and requirements surrounding auditor change and an auditor’s right to attend and be heard at company’s annual general meetings.

These findings must be interpreted with caution. Beattie et al.’s (1999) study was done in a larger country and the data were collected more than 9 years ago and due to the rapidly changing business environment, things may have moved on since then. Future studies can focus on conducting more in-depth research (qualitative), exploring the underlying reasons for auditors’ and users’ PAI.

References


**Further reading**


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