The impact of extended audit tenure on auditor independence

Auditors perspective

Authors:  Etienne Chia-Ah  
Joel Karlsson

Supervisor:  Margareta Paulsson
SUMMARY

The independence of an auditor has not only been viewed as an ethical issue within the auditing professional bodies like the International Federation of Accountants (IFAC), but also it is the bedrock upon which a successful audit is based. The stakeholders require the auditors to stay true to the main credence of the profession as an independent outside third party to give an opinion on the true and fair view of the financial statements presented by management. Being independent, implies that the auditors must remain objective and be skeptical (questionable mind) to ensure that the true and fair view criteria bestowed upon them is met. With the wave of crises in the early 2000 notably Enron, the auditor independence was put in the spotlight which has continually threatened the integrity of the entire profession.

Connected to these accounting scandals, it could be realized that most of the auditors involved in the audits had long standing relationship with these firms. In other words, the auditors had extended audit tenures. This also puts the issue of audit tenure into the open that is as to how long should auditors serve a client? This meant that countries like Brazil and Italy required auditors to serve the same client (Listed companies) for a maximum of 5 and 9 years respectively in a bit to safeguard auditor independence and hence prevent financial fraud. The question that puzzles us is if there is an association of auditor independence to extended audit tenures.

The main purpose of this research is to examine whether extended audit tenures can lead to the emergence of threats to auditor independence which will impair the auditor independence. In order to achieve this purpose, we translate into our hypotheses situations that consider each of the five threats to auditor independence.

In order to investigate our findings; we use a sample of 1,250 Swedish auditors. We collected primary data through a web-based questionnaire. The responses gotten were analyzed using a quantitative method, paired samples t-test in SPSS, which compared similar situations in both short and extended audit tenures to reveal if there could be any association of auditor independence to extended audit tenures.

Our findings did not reveal any strong relationship between the advocacy and familiarity threats and the impact extended audit tenures have on them, hence we rejected the hypotheses. However, though the relationship was still not strong, the actual significance levels were lower when compared to the set significance level for self-interest, self-review and intimidation threats and this enabled us to accept the respective hypotheses associated to these threats. In conclusion, our results show an association of auditor independence to extended audit tenures.

Key words: Auditor independence, audit tenure, audit quality and auditor rotation
ACKNOWLEDGEMENTS

This route has not been a smooth sail all through as the end product suggest. There have been wavy and rocky patches all along therefore, we seize this opportunity to say a big thank you to our supervisor, Margareta Paulsson (PhD), who was always present to get us off the wavy and rocky patches whenever we needed her counsel. We also thank all the lecturers at Umeå School of Business and Economics (USBE) especially those of the Accounting department for the knowledge we garnered during our stay at the school. We will forever remain indebted to you all.

The completion of this thesis owes much to the cooperation of the Swedish auditors who took out time from their busy schedule to quickly respond to our questionnaire.

We also acknowledge the efforts of the three sets of two students supervised by Margareta Paulsson (PhD) for their contributions in the in-progress seminars we had. Your comments were also valuable to the realization of this work.

We appreciate the efforts of Umeå University Library and its staffs for providing us with most of the materials that were used to get this work to completion. Special thanks to Inger Granberg and Susanne Nilsson in the student administration office at USBE for their relentless efforts to attending to some of our fundamental problems whenever we needed their assistance.

We also wish to commend the efforts of Ebuh Randy Ewane and Paul Nde Timah for taking the pains to read through the manuscript and correct some eventual minor grammatical errors.

Last, but not the least, we express earnest gratitude to our respective families for their constant moral support they have given to us throughout this study.

To all those we have not specifically mentioned but who helped us in one way or another, we sincerely appreciate all your efforts.

Etienne Chia-ah and Joel Karlsson
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Introduction</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>1.1 Problem Background</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>1.2 Research Question</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>1.3 Purpose of the Study</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>1.4 Delimitations of the Study</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>1.5 Definition of Concepts</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>1.6 Abbreviations</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>1.7 Disposition of the thesis</td>
<td>11</td>
</tr>
<tr>
<td>Two</td>
<td>Research Methodology</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>2.1 Choice of Subject</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>2.2 Perspective</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>2.3 Research Approach</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>2.4 Methodological Assumptions</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>2.6 Research Design</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>2.7 Research Strategy</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>2.8 Literature Search</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>2.9 Sources of Data and Theory Collection</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>2.9.1 Criticism of Secondary Sources</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>2.9.2 Evaluating Secondary Data Sources</td>
<td>18</td>
</tr>
<tr>
<td>Three</td>
<td>Literature Review</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>3.1 Introduction on choices of theories and their presentation</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>3.2 History of auditor independence</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>3.2.1 The Role of AICPA and other Professional and Regulatory Bodies on Independence</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>3.2.2 Brief history of the Swedish audit</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>3.3 Independence threats and Safeguards</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>3.4 Categories of threats to independence</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>3.4.1 Self interest threats</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>3.4.2 Self-review threats</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>3.4.3 Advocacy threats</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>3.4.4 Familiarity threats</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>3.4.5 Intimidation threats</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>3.5 Categories of safeguards to threats to independence</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>3.5.1 Safeguards created by the profession, legislation or regulation</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>3.5.2 Safeguards within the auditor and the audit firm’s own system and procedures</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>3.5.3 Safeguards created and maintained within the client</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>3.6 Independence and Non-Audit Services (NAS)</td>
<td>30</td>
</tr>
</tbody>
</table>
Table of Contents

3.7 Audit Tenure ......................................................................................................... 32
  3.7.1 Economic View .............................................................................................. 33
3.8 Hypotheses Development ..................................................................................... 34
  3.8.1 Model for hypotheses ..................................................................................... 36
CHAPTER 4 - RESEARCH DESIGN ............................................................................ 37
  4.1 Research sample ............................................................................................... 37
  4.2 Questionnaire design ......................................................................................... 37
    4.2.1 Survey materials ......................................................................................... 38
    4.2.2 Data collection ............................................................................................ 41
  4.3 Statistical tools used for analysis of data .......................................................... 42
    4.3.1 Scale reliability ............................................................................................ 42
    4.3.2 Hypotheses testing ....................................................................................... 43
  4.4 Analysis of response rates and missing values ................................................ 44
  4.5 Critique of primary sources .............................................................................. 45
  4.6 The quality criteria of the research .................................................................. 46
    4.6.1 Reliability ..................................................................................................... 46
    4.6.2 Validity ........................................................................................................ 47
CHAPTER 5 – EMPIRICAL RESULTS ......................................................................... 48
  5.1 Background information .................................................................................... 48
  5.2 Self-Interest threats .......................................................................................... 48
  5.3 Self-review threats ............................................................................................ 49
  5.4 Advocacy threats ............................................................................................... 51
  5.5 Familiarity threats ............................................................................................. 51
  5.6 Intimidation threats .......................................................................................... 52
  5.7 Summary of hypothesis testing ......................................................................... 53
CHAPTER 6– ANALYSIS ......................................................................................... 55
  6.1 Analysis of self-interest threats ........................................................................ 55
  6.2 Analysis of self-review threats ......................................................................... 56
  6.3 Analysis of advocacy threats ............................................................................. 57
  6.4 Analysis of familiarity threats .......................................................................... 57
  6.5 Analysis of intimidation threats ........................................................................ 58
  6.5 Analysis of open ended questions .................................................................... 58
  6.7 Summary of the analysis .................................................................................. 59
CHAPTER SEVEN – CONCLUSIONS, RECOMMENDATIONS, SUGGESTION FOR FURTHER RESEARCH AND LIMITATIONS ..... 60
  7.1 Conclusions ....................................................................................................... 60
  7.2 Recommendations ............................................................................................. 61
CHAPTER ONE - INTRODUCTION

This chapter gives a brief background of the study area, the research question and the main purpose of the research. Also, it covers the delimitation of the study, the definition of some relevant concepts and the layout of the subsequent chapters.

1.1 Problem Background
Independence, both historically and philosophically, constitutes the foundation of the accounting profession and upon it, depend the profession’s strength and stature (Carey, 1970, p.182). There is a great reliance of public trust on audited financial statements and accounting reports as they constitute the bedrock of the financial markets. This means that the auditors at all times must be objective in performing their duties. The independence of an auditor demonstrates objectivity and builds the trust of those who depend on their services. Since independence is of great relevance to the auditing profession, the rules related to it must remain relevant, effective and fair in any business environment (Eilifsen et al., 2006, p.577). The most recent financial scandals and audit failures of Enron and WorldCom just to mention a few, has left the business community skeptical about the auditor independence.

Independence is considered the most complicated and controversial, yet the cornerstone aspect of the auditing profession because it strengthens the profession’s commitment to objectivity. The reason for its complication and controversial nature is as a result of the many rules and regulations established over time by different professional and regulatory bodies (Eilifsen et al., 2006, p.577). Considering the benefits of safeguarding auditor independence, the European Commission has issued standards to be applied throughout the European Union. The USA enacted the Sarbanes Oxley (SOX) Act of 2002, which describes the independence requirements of US auditors (Hayes et al., 2004, p.83). The European Commission Council Directive 84/253/EEC gives discretionary right for member states to set their own conditions of independence to statutory auditors. And Article 25 of the 8th Company Law Directive clearly states that auditors shall not carry out statutory audits if they are not considered to be independent according to standards put in place by the Member states. As a guideline, the EU committee on Auditing spells out some fundamental principles which serve as recommendation called Statutory Audit Independence in the EU: A set of fundamental principles (Hayes et al., 2004:84).

Generally, independence can be of two forms, independence of mind and independence in appearance. The former, requires the auditor to have a “state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment allowing an individual to act with integrity and exercise objectivity and professional skepticism (Hayes et al., 2004, p.85).” While independence in appearance requires the auditor to avoid situations that will cause others to conclude that they are not maintaining an unbiased objective attitude of mind (Porter et al., 2003 cited in Nasser et al., 2006, p.724). Therefore, the auditor is charged with the responsibility of carrying out a personal assessment to verify if independence risk can be accepted or not. It is only after the auditor must have identified, analyzed, evaluated and then apply appropriate safeguards to ensure that independence risk is brought to a minimal level before a job can be accepted. If such a task is not performed, then independence is at risk so too is objectivity, thus, the assurance engagement must be terminated. The threats to independence are often very significant and thus undermine the auditor’s effectiveness in rendering the auditing services. It becomes even more
challenging when the auditor “over-stays” with a client, these threats may sneak in very gradually over time which in turn, can affect independence.

Though extended audit tenures could hamper auditor independence, we think that such extended tenures carry along with them other well known threats. As identified in the International Federation of Accountants (IFAC) handbook and principle based model for independence adopted by the Swedish professional institute of authorized and approved public auditors (Föreningen Auktoriserade Revisorer, FAR) in 2001, these threats commonly referred to as threats to auditor independence include: familiarity, self-interest, self-review, advocacy and intimidation threats. In the principle based model for independence adopted in Sweden, all Swedish auditors are obliged to undertake an assessment based on the independence analysis model to ensure that their independence is not impaired by these threats when they accept a new client of any size or a consulting assignment (SFS 2001:883). If the auditors cannot rule out any of these threats, and do not have the necessary safeguards in place to curb them in lieu of accepting a client or an assignment, they are forced to refrain from serving that client or accepting the consulting assignment. We argue that these threats could eventually creep-in or be higher when there are extended audit tenures. Our opinion is supported by the study of Bamber and Iyer (2007, p.1) who measured to which extent the auditor identified themselves with their clients and the threat of this attachment to auditor’s objectivity and independence. They found evidence that the auditors’ identification with their clients increased with extended audit tenures and this supports the concerns that auditor being too close to their clients could be a threat to the auditor independence.

We cannot for sure rule out that the principle based model for independence leads to solving the problem with the auditor independence in Sweden, and knowing the repercussions of these threats to auditor independence, it is necessary for us to indicate that these threats could either be directly or inversely related to extended tenures. That is to say, there could be an increased likelihood that auditor independence will be greatly impaired when they have extended audit tenures as this could increase the impact of these threats on their independence. Likewise, extended audit tenures may not necessarily imply a significant rise in the level of these threats provided the necessary safeguards are put in place to counter any such threats that may emerge. With an understanding of the significance of these threats, the auditor tenure could be a source for the emergence of these threats or likewise, it could not be of any importance provided the safeguards are not only put in place, but are also stringently followed. With or without the safeguards to these threats, a potential danger may loom around on the auditor’s independence once there are extended audit tenures.

Audit tenure has received extensive attention from regulators and researchers alike. The responsibility of setting how long an audit tenure should be, rest on the regulators, whom in most cases work in tandem with the government. The Spanish Audit law of 1988 had a provision that required mandatory rotation of auditors after every 9 years (Carrera et al., 2007, p.672). This was to ensure that no one auditor stays more than 9 years with a single client, hence setting the length of audit tenures at 9 years. Though this policy was suppose to be fully implemented in 1997, it did not stand the taste of time as it was formally abolished in 1995 because it did not work and neither did it achieve its objectives as “public policy” (Carrera et al., 2007, p.672). Despite the failure in Spain to fully implement lengths for tenures, currently, listed companies in both Brazil and Italy are required by law to rotate their independent auditors after every
5 and 9 years respectively; therefore, setting lengths of audit tenures to 5 and 9 years in Brazil and Italy respectively (Jackson et al., 2008, p.421). In the US, lengths for audit tenures are set at 5 years only for audit partners according to a provision in the SOX Act enacted after the collapse of Enron (Healey & Kim, 2003, p.10). To prove how big a problem extended audit tenures is; as estimated by Morgan Stanley, the market capitalization of WorldCom, Tyco, Quest, Enron and Computer Associates which all had auditors with extended tenures, resulted to a mammoth loss of $460 billion after their collapse (Jackson et al., 2008, p.421). It did not only end at that, as there were also losses of: pensions for employees, life savings of individuals who invested in the stocks of these companies, careers, the reputation of the auditing profession and a loss in the confidence of both the investors and the general public.

With respect to our study, in accordance to the preceding paragraph, the article of Johnson et al. (2002, p.640) wherein they examine the correlation of audit tenure and audit quality; they considered a long (an extended) audit tenure to be a relationship between the auditors and their clients that have lasted for more than 9 years, while a short tenure represents a relationship with any client type that has lasted for less than 3 years. As generally thought, independence is lost when the auditors have a personal relationship with clients of any size, which often arises when the tenure is long. There is a likelihood that the mental strength of the auditors will be at stake such that the objectivity of their opinion may not be enough to ensure all assertions made by management represent a true and fair view of the state of affairs. Therefore, there is the risk of an “over-cozy” relationship that may arise with extended tenures in office by the auditor for any particular client, which puts the auditor independence at great risk. We think that close relationships could normally exist between auditors and their clients of any size most especially when they have extended tenures. The bone of contention now will be that these relationships could be over-blown or become too cozy which may impair the auditor independence.

Just as there is an ever increasing research on audit tenure and independence respectively, though from different perspectives like the studies of DeFond et al. (2002) that studied whether auditor independence can be impaired by non-audit service fees as a propensity of issuing going concern audit opinions; Gul et al. (2007) which looked at a joint effects of audit tenure and Non-audit services on auditor independence; and Knechel and Vanstraelen (2007) which studied the relationship between audit tenure and audit quality implied by going concern in private firms, in Belgium, just to mention a few, the results are hardly the same. As the results for the above selected papers show; DeFond et al. (2002, p.1255,1271) using a sample of 1,158 firms including 96 that received first-time going concern opinion from the Compact Disclosure-SEC database between February 5, 2001 and June 30, 2001, they established that the auditor independence is promoted by market-based incentives such as reputation loss and litigation costs that outweighs the economic dependency created by higher fees; Gul et al. (2007, p.122,147) recognized that auditor independence may be compromised as a result of high non-audit fees for smaller clients with short audit tenure but not for larger client after making use of a sample data of 4,720 observations (firms) from S&P and Compustat databases for the period 2000 and 2001; and Knechel and Vanstraelen (2007, p.118,129) using a sample of 618 private firms from 1992-1996 in Belgium, evenly distributed between financially stressed companies that went bankrupt and financially stressed companies that did not go bankrupt, they observed that there was no loss in auditor independence as a result of lengthy tenure, but in non-bankrupt companies,
auditor independence were lower when auditor tenure was longer. Having the result of these studies and others in mind, and cognizant of the relevance of independence and tenure in today’s auditing business as well as in the research community, we think that this topic will be intriguing to undertake. Our study is justifiable because of its theoretical and practical contributions to existing literature. From a theoretical perspective, the research focusing on Sweden and Swedish auditors is limited and the exact angulations of our study to the best of our knowledge have not been studied before. From a practical perspective, the auditor independence is of interest for many different stakeholders. When our study use the auditors’ perceptions, it is obvious that the results will be of most interest to auditors, but we believe that the results of our study could be practical to stakeholders who rely on the objectivity of the audit reports. They can use the results of this study to understand the severity of threats to independence and see how they can improve existing safeguards or implement new safeguards to assist in protecting the auditor independence and or making them to be more independent. We think that our study in the best of our knowledge may help to contribute to three knowledge gaps that perhaps have not been fully filled by the existing literatures.

First, our contributions will be centered expressly on capturing the impact of extended audit tenures on auditor independence as perceived by the auditors themselves. We think that there has been little or no published study or research that has been documented that dwells on the theme of our work. Secondly, we will focus this study on Swedish auditors, and it is interesting to note here as well that we could not readily find any study in Sweden that covers this topic. Therefore, we will probably be breaking a new ground and setting a platform for further studies to come within Sweden. Third, though threats to independence may have been talked about, up till date, we have not readily found studies that express a relationship between threats to auditor independence and extended audit tenures.

1.2 Research Question
Is there an association of auditor independence to extended audit tenures?

1.3 Purpose of the Study
The main purpose of the study is to examine whether extended audit tenures can lead to the emergence of threats to auditor independence which may impair the auditor independence.

1.4 Delimitations of the Study
It is important for us to define the boundaries of this study such that the readers are aware of the direction to which our study is headed.

In our study, we consider auditors as individuals and not specific auditing firms. According to the Auditors Act (Revisorslag) (SFS 2001: 883, p.2) an auditor carries out his/her function in an audit firm. Auditors are employed by auditing firms; therefore sticking to a group of auditors in certain audit firms like the Big Four may compromise the orientation of this study and may not be truly representative of the entire auditors in the auditing business. We therefore indicate here that, the phrase “auditors” as used in our study represents a cross section of the entire authorized and approved auditors rather than specific auditing firms.
Chapter One - Introduction

It may be cumbersome for us to consider both the client views and auditors’ views. From a client’s point of view, independence of the auditor may have a different interpretation. Though similarities may exist, the level of seriousness may not be the same. Knowing how relevant this issue is to the auditing profession, we will solely look at independence from the side of the auditors’ rather than from the clients’ views.

The increasing use of the word auditors in our study does not by any means refer to both external and internal auditors. That is to say the word auditors in this study refer only to external auditors. This is because the scopes of function for external and internal auditors are different in nature. Just as an example, the external auditors has as their main responsible to express an opinion on the financial statements while the internal auditors concentrates to assert the operational effectiveness of the distinct internal business processes of a company. Though both types of auditors are required to be independent, the degree of the independence for external auditors is far too strong and mandatory. Therefore, this study does not consider the independence of internal auditors and when we use the word auditors, we expressly imply only to external auditors.

1.5 Definition of Concepts

Auditing: Auditing is defined as a systematic process of objectively obtaining, evaluating evidence regarding assertion about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users (American Accounting Association [AAA], 1973).

Auditor: An auditor is an approved or authorized accountant with the capacity to carry out audit, not to be declared bankrupt or subject to trading and consultancy prohibitions, have an education and experience required for the audit business, have passed the examination of professional competence as an approved or authorized accountant set by the Supervisory Board of Public Accountants or Supervisory Board of Authorized Accountants, and be fit and proper person to carry on audit process (Revisorslag [SFS] 2001: 883, p.1-2).

Audit tenure: This is the number of consecutive years that the audit firm (auditor) has audited the client (Johnson et al., 2002, p.640).

Objectivity: “A professional accountant should not allow bias, conflict of interest, or undue influence of others to override professional and business judgments” (Eilifsen et al., 2006, p.587).

1.6 Abbreviations

<table>
<thead>
<tr>
<th>Abbreviations</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAPA</td>
<td>American Association of Public Accountant</td>
</tr>
<tr>
<td>AIA</td>
<td>American Institute of Accountant</td>
</tr>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountant</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FAR</td>
<td>Föreningen Auktoriserade Revisorer</td>
</tr>
<tr>
<td>FFE</td>
<td>La Fédération des Experts- Comptables Européens</td>
</tr>
<tr>
<td>FTC</td>
<td>Federal Trade Commission</td>
</tr>
<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
</tr>
<tr>
<td>NAS</td>
<td>Non-Audit Services</td>
</tr>
</tbody>
</table>
Chapter One - Introduction

**Table 1: Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>POB</td>
<td>Public Oversight Board</td>
</tr>
<tr>
<td>SEC</td>
<td>Security Exchange Council</td>
</tr>
<tr>
<td>SECP</td>
<td>Security Exchange Council Practice Section</td>
</tr>
<tr>
<td>SOX</td>
<td>Sarbanes-Oxley Act</td>
</tr>
</tbody>
</table>

1.7 Disposition of the thesis

**Chapter One – Introduction**

It is important that from this chapter, the readers gain a general understanding and that gives them the much needed foundation of the study area and perhaps enables them to perceive how the subsequent chapters will be discussed.

**Chapter Two – Research Methodology**

This chapter looks at the reason why the researcher chose this topic, how it was preconceived. Also the research theory, research approach, research strategy and the research design to be used will all be highlighted in this section. The reasons for choosing each of the options available above will also be made known. Later sections will cover a guidance on how literature was searched, the sources from which data was collected, criticisms of these sources and finally, evaluating the secondary sources of data using criteria of research.

**Chapter Three – Literature Review**

Knowing how we will conduct the general study, this chapter cuts across some interesting articles, books, websites and some other official documents which will enable the readers to develop more understanding from the brief knowledge gained in chapter one about the central issues this study seeks to underscore.

**Chapter Four – Research Design**

Equipped with concepts and literature about the subject matter, it is important to the authors to break down these concepts such that it fits in to our study to enable us achieve the purpose of the study through the results to be generated from our questionnaire.

**Chapter Five – Empirical Results**

With the aid of our design instruments, the results gotten are presented such that the differences or similarities between our study and existing theories can start to emerge.

**Chapter Six - Analysis**

Within the ambit of the study, the analyses are streamlined strictly to what the results show about the research question and purpose of the study, and also show how the study relate or not relate to other studies clearly pointing out the differences.

**Chapter Seven – Conclusions, Recommendations, Suggestion for Further Research and Limitations**

At the end of this study, the readers should be able to understand if the research question and the purpose of the study have been met. This chapter does exactly that and from here it is very clear to the readers the contribution that this study has made to existing literature.

**Figure 1: Disposition of the thesis**
CHAPTER TWO - RESEARCH METHODOLOGY

This chapter gives the reasons for the choice of the subject under study and its preconception. It also looks at the way the research views the topic, perspective, the research approach that will be used in the latter part of this work, the methodological assumptions taken into consideration and the reason why they are considered, the research design as well as the research strategy, the sources from which data was collected and finally a criticism of these sources.

2.1 Choice of Subject

The independence of any auditor is a very important aspect in their professional career as this independence upholds the stature of the profession. The general public, particularly the shareholders, put their trust in the functions of the auditors and expect them to truly and impartially express an opinion as to the fairness of the financial statements presented by the stewards. Therefore, the auditors cannot adequately perform this function if they are, and are not seen as independent from management. This is to say that they must undertake their work independently from management and may not have an “overly” cordial relationship with management. The issue at stake now is whether their lengthy tenure with their clients impairs their independence; as their over-stay with the client can risk them becoming too cordial with the clients thereby putting their independence into question. This will in turn make those who depend on the financial statements to consider them unreliable.

Considering that these areas of independence and tenure of the auditor have been a much debated area among researchers though with different variables under consideration, we consider these areas very relevant and still open for more discussions. From the previous knowledge we achieved in our bachelor’s studies, the Advanced Auditing and Assurance Services course at the master’s level in the Umeå School of Business, from reading numerous scientific articles published in reputable journals about these issues and from text books, we believe that we have garner ample knowledge to throw more light on these issues and lay bare our claims especially in a Swedish setting. The relevance of this topic cannot be over emphasized especially when we are aware of the role of auditing in general and the “irreplaceable” place it has in any company set up. For this role to be fulfilled, those who perform this function warrant the general public to confidently lay their trust in them. This will only come if they are considered independent beyond all reasonable doubt. Therefore, these aspects catches our interest and we find it fascinating to unravel some findings.

As we try to unravel these findings, it is worthy to specify from whose point of view this study will be based on since it is possible that it could be looked upon from different perspectives. The subsequent paragraph will dwell on the issue of the perspective upon which this study is based.

2.2 Perspective

Perspective simply refers to the point of view chosen by a researcher to focus when undertaking a research work and this could be from an interest and or theoretical point of view. In either case, both seeks to point out how an individual looks at reality; as what is considered by one person as true may not be the same to another person particularly from different fields of studies. It means that a topic like this can be addressed from varied angles with diverse meanings if undertaken by different individuals from wide-ranging educational background or works of life. This implies
Chapter Two - Research Methodology

that for our study, a management expert may chose to look at extended audit tenures and auditor independence issues from a holistic management perspective, a marketing expert and likewise an accountant or auditor from different perspectives based on their field of expertise. In all these scenarios, the results of the findings from the varied perspectives may be relevant to their respective field of studies but not necessarily across the other sides, though it does not preclude the fact that some parts of the finding can be relevant to other field of studies and can even give rise to further researches. Since this study focuses on auditors; and also mindful of the fact that we are accounting students with ample auditing knowledge, we will be undertaking this study from the auditor’s perspective albeit theoretically. Our interest perspective will be that of the clients as this study in some parts, will view the impact of extended audit tenures on auditor independence. Though we will give the general basic knowledge that will be relevant for any individual from any field of study, our empirical data and the results thereafter, will focus on the auditors’ perspectives.

Knowing our perspective at this point, it is essential for us to ensure that we choose an appropriate research approach to this study. This approach will try to establish a link between existing theory and the research as exemplified in the paragraph below.

2.3 Research Approach
Considering the main purpose of this study, it will only be logical to choose a research approach that complements it. The research approach establishes a relationship between theory and research that is relevant to the particular study to be undertaken so that different steps of the research process can be built (Bryman & Bell, 2007, p.11).

The relationship between theory and research could be viewed in terms of inductive and deductive strategies. In other words, the research approach can either take the form of an inductive or a deductive theoretical approach. In the inductive approach, the researcher infers the implication of the findings for the theory that prompted the research; while the deductive approach deduces a hypothesis that must be subjected to an empirical scrutiny (Graziano & Raulin, 2003, p.38). In line with the purpose of this study, a deductive approach will be used. The reason for this choice is that we are undertaking an examination process which requires empirical facts to establish and support our findings. We cannot say with much certainty whether a causal relationship exists between audit tenure and independence, therefore, undertaking an examination will be of great insight to this research and so, to do this, the use of a deductive approach becomes inevitable. In order for us to examine, we develop hypotheses in the later chapter which we will be subjected to an empirical scrutiny. In these hypotheses, lay concepts that form the basis for our research thereby establishing a relationship between theory and research. As we use a deductive approach in this study, it is important that the methodological assumptions we consider be directly related to the research approach in view.

2.4 Methodological Assumptions
Two main methodological assumptions will be underscored and these include ontology and epistemology. Epistemology on the one hand tells us what is regarded as acceptable knowledge in a discipline and how to study the real world (Saunders et al., 2009, p.106; and Bryman & Bell, 2007, p.16). With epistemology, we shall consider two positions, positivism and interpretivism. The positivism view point advocates the use of natural science methods to study social reality and beyond (Gratton & Jones, 2009, p.24); while interpretivism view point counters this and suggest that social sciences deals with
people and their institutions which are fundamentally different from those of natural sciences and as such should not be used to study social reality (Bryman & Bell, 2007, p.17). We choose positivism as our epistemological assumption. The paragraph below explains the reason for our choice.

Indeed, most often, extended audit tenures and auditor independence appears to be very complicated issues that not only the shareholders but also professional and regulatory bodies as well as academics cannot fully get a firm grip on. This now causes various individuals to have varied views about extended audit tenures and independence as some consider the two to be parallel but others see them to be inter-related or complement each other. In spite of these views, the positivism assumption can greatly enable us to gather empirical data upon which we can base our generalization as embedded in our hypotheses influenced by pre-existing theories. This means that we can take a keen observation through our hypotheses to see whether some of the theoretical terms rooted in our literature hold water or not. Though it may be difficult to disentangle the natural science aura from this assumption, we think that since we have chosen a deductive theoretical approach, leaves us with the opportunity to choose objectivism as our epistemological assumption.

Ontology on the other hand is considered to be how an individual views reality; which can either be subjective or objective depending on the researcher (Bryman & Bell, 2007, p.22). Here, we will consider two philosophical positions; that is objectivism which is the position that considers social phenomenon to confront us as external facts that are beyond our reach or influence; and constructionism which assert that social phenomenon and their meanings are continually being accomplished by social actors (Saunders et al., 2009, p.106; and Bryman & Bell, 2007, P.23). Objectivism gives an objective view of what reality is, while constructionism paints a subjective view to reality. Our choice of ontological assumption will be objectivism. The paragraph below will support the reason for our choice of ontological assumption – objectivism.

The research question of this study is definitive, rather than subjective as to whether the association of extended audit tenures to auditor independence can either impair or not impair auditor independence; therefore, we can say with some degree of certainty what the reality of extended audit tenures can cause to the auditors independence. We know that extended audit tenures can either be seen as “favorable” to the auditors independence or “unfavorable”; and both circumstances depends on the situation in which the auditors find themselves at any given point in time and the rules they are expected to adhere to. But these rules are similar in almost every country because the rules developed at the local levels take their emergence from the international rules. International auditing professional bodies have a series of rules enshrined in the ethical codes that clearly indicate what the auditors should and should not do that may have direct or indirect impacts on their independence. Even in local settings, in our case, Sweden, there are similar rules in FAR that the auditors must respect in order to uphold their independence. We establish that though these rules exist; when the auditors increasingly get extended tenures, the efficacy of these rules can be put to test and this could result to the auditor independence being impaired or unimpaired. In viewing things in this light, it implies that the central tenet of the auditing profession has a reality that externally confronts the auditors who belong to both local and international professional bodies. With extended tenures either impairing or not impairing independence, this gives a major objective stand on the reality that confronts the
Chapter Two - Research Methodology

Auditors. To say the least, the reality is that, either extended audit tenures can impair auditor independence or they cannot impair the auditor independence. Based on the above reasons, we choose objectivism as our ontological position. With the above choices made, how data will be collected and analyzed becomes our next point of interest. It is only normal that we are able to identify a research design that complements the choices we have made earlier on.

2.6 Research Design
A research design is a structure that guides the execution of the research method and analysis of the subsequent data whilst maximizing the reliability and validity of the findings (Gratton & Jones, 2009, p.101). From the research designs outlined by Gratton & Jones (2009); and Bryman & Bell (2007), this research will make use of the cross-sectional design.

The reasons for this choice is deeply rooted in the purpose of this study which requires that we acknowledge whether there are any variation that may occur to the auditor independence when they are associated with long tenures. To achieve this, we will concentrate on auditors from dissimilar audit firms, auditing different clients, taking into consideration their tenures; to ensure that we can make a better distinction between the circumstances involved when they undertake their audits vis-à-vis their independence, thereby enabling the sampling procedure to contain a larger amount of data which may enhance the results of our findings. The vector for the collection of this data will be sent out at once with variables embedded in it. This implies that the answers to the variables will be collected more or less simultaneously and at the same time, thereby establishing a pattern of association with the variables which will completely avoid any attempts by the researchers to manipulate any of the variables (Bryman & Bell, 2007, p.55).

However, it is important for us to note here that we by no means establish a causal relationship between extended audit tenures and auditor independence. This is because there may be other factors outside extended audit tenures that may influence the auditor independence. Though extended audit tenures can be one source of this influence, the significance of any other sources cannot be underestimated. Therefore, this could pose a problem as to the direction of the causality of the relationship between extended audit tenures and auditor independence which we duly acknowledge. To be on the safer side, we will acknowledge a relationship, but not necessarily causal between the variables that we will study. Though we do not establish any causal relationship, we can establish the choice of the strategy we intend to use as this will be surmountable in some prior chapters.

2.7 Research Strategy
As pointed out in Bryman and Bell (2007, p.28), a research strategy implies a general orientation to the conduct of business research. They underscore two types of research strategies, quantitative and qualitative. According to them, a quantitative research can be construed as a research strategy that emphasizes quantification in the collection and analysis of data. This strategy also entails:

- A deductive approach to the relationship between theory and research with more accents placed on testing of theories.
- The incorporation of the natural scientific model and of positivism in particular.
- Embodiment of the view that social reality is external, objective reality.
On the other hand, Bryman and Bell (2007, p.28) describes qualitative research as the research strategy that emphasizes words rather than quantification in the collection and analysis of data and it:

- Places more accents on the inductive approach to the relationship between theory and research with a greater interest on the generation of theories.
- Does not condone with the norms and practices of the natural scientific model.
- Considers social reality as a constantly shifting emergent property of individual’s creation.

Based on the choices of our research approach, methodological assumptions, research design and strategy; we will use a quantitative research strategy. Just to add to the above supportive arguments we raised earlier for our previous choices, we believe that a quantitative or a quantifiable data will provide us with a systematic and standardized method for judging the variations of the inclusive variables in our data and help explain the differences that we will be generated in our analysis based on the characteristics. Hence, the use of a quantitative strategy is inevitable.

Being able to make the above choices, as well as completing the ensuing chapters require a grasp of existing knowledge. Knowing how and where to get the relevant knowledge is also crucial and the section beneath seek to explain just that.

2.8 Literature Search
In order to achieve valuable knowledge that is both relevant to this work and justify that this study has either not been undertaken before or undertaken from a different perspective, a thorough search of existing sources of literature is required. Being accounting students with knowledge in auditing from previous course modules, we got recommended articles from some our past auditing course modules that we needed to review which had some relevant concepts that appear in parts of this work. The references included in those articles gave the necessary background for further search. After conceiving the title of this study and the research question, the first stage was to review the existing articles at our disposal while taking note of the keywords used in these articles. We then identified keywords for this study: audit tenure, auditor independence, audit quality and auditor rotation; that are relevant to the research question which aided the search of further articles and books in the databases of Umeå University Library. While reviewing these articles, some relevant references were identified within the articles and on the reference lists which we decided to search even further.

The search for the articles and books were gotten from the databases and other sources provided by Umeå University Library which included Business Source Premier (EBSCO) and Emerald Fultext; Album, DIVA portal, Elsevier ScienceDirect, Informaworld SSH, Wiley Interscience and SwePub. We took keen interest in SwePub which is a database that provide articles, conference papers and dissertations published at Swedish Universities since our study is intended in part for a Swedish audience. Similarly, the Google search engine and Google scholar was used. Finally, we regularly check for new publications in the afore-mentioned databases and sources for new publications.
Understanding how and where to search for literature makes it easier for us to gather the relevant data that we may require to fully complete this research. Though some of these data as our next section below seeks to explain do not only come from existing articles and books, some of it will be first hand – from questionnaires.

### 2.9 Sources of Data and Theory Collection

Our study will make use of two sources of data collection: primary and secondary sources. The primary source of data is the collection of first hand information using different survey methods that appropriately suit the study based on the researcher’s assumed perceptions. Just by its name, secondary data is information already collected for other purposes which may have been processed and stored. This information may come from personal diaries, official documented data, journals, articles, newspapers, text books and internet. This research will make use of both sources. The former will be used as the main empirical data for the analysis, while the latter will be used to describe theories and in the literature review. As at this point, we will only be able to criticize the secondary sources of data that we have used. While in the fourth chapter after we must have collected our primary data, we will be able to criticize it.

#### 2.9.1 Criticism of Secondary Sources

We are aware of the fact that each and every article we use has different research perspectives and so may have data that are not relevant to this study. These data were collected to meet specific purpose(s) that differs from our research question and purpose making it inappropriate for the entirety of such data to be applied in our study (Saunders et al., 2006, p.260). Therefore, it is only possible that our research question and purpose will be addressed partially, thus the need for a survey through questionnaires that we shall conduct in later chapters. The reason for this partiality is as a result of the change in some of the variables, the sample, and time (Saunders et al., 2006, p.260). In our study, on average, most of the secondary data (articles and working papers) that we have used were published between 2005 and 2007 which gives a gap of at least 3 years. Under normal circumstances, in research, 3 years could be considered a decade as some of the articles published within this period may not be useful today. However, some of the basic theories within this data remain unchanged even as times pass by. In this study, we make comparison of some of these theories in recent publications to those in old publications to ensure that we get updated versions of the literature and apply the parts that impact our study.

Similarly, we noticed that some of these articles considered situations in other countries of the world most especially the US and not Sweden which makes it a little difficult to actually redress such information into a Swedish context. The regulations about auditor independence and audit tenure are different between the US and Sweden. For instance, there is no regulation in Sweden that limits the tenure of audit partners to 5 years as stipulated by a provision in the SOX Act enacted in the US in 2002. This may imply that some issues about auditor independence vis-à-vis audit tenures may be different in both settings. Like we mentioned in the earlier paragraph, there are some points of contact within these two settings like upholding auditor independence by assessing the risk of threats to independence before accepting a client, which we consider relevant to our study and try to settle on these similar issues when reading existing literature.

Some of the source documents available here in Sweden were not in English Language which may have caused mistranslations and so misrepresentation of facts as they are suppose to appear. To mitigate this, one of us hails from Sweden, and also to an extent,
has a good understanding of English language. Also, with the help of some individuals who are better placed in Swedish and English, as well as online translation tools, we were able to get at least the translation of certain key concepts in these source documents. Nonetheless, with the solutions to the criticisms raised, we acknowledge that the impression of those that originally collected and collated these secondary data will have influenced the trajectory of this study to some extent (Saunders et al., 2006, p.263). Because of this, it is compromising that we carefully evaluate our secondary sources of data.

2.9.2 Evaluating Secondary Data Sources
Though it may not sound familiar, it is important that we evaluate the overall and precise suitability of our secondary data in terms of validity and reliability.

For overall suitability, the criterion that is of great interest is measurement validity. With measurement validity, any secondary data that fails to provide information that is required to answer the research question or meet the objectives of the study may result to invalid answers (Kervin, 1999 cited in Saunders et al., 2006, p.263). In the articles we used, the survey data that were used are not in conformity with ours. For instance, Knechel and Vanstraelen (2007) used a sample of 618 evenly distributed Belgian private firms that were financially stressed and did not undergo bankruptcy, and financially stressed firms that underwent bankruptcy; Gul et al. (2007) used a sample of 4,720 firms evenly distributed between manufacturing, computer-related and retail-related businesses. It can be seen that the point of interests in these studies and others we used are quite different from our interest which is to examine the perception of auditors about extended audit tenures on their independence. Regrettably, there are no clear solutions to problems of measurement invalidity and the only way for us to evaluate the validity of the data used is by making our own decisions (Saunders et al., 2006, p.264). The decisions we make based on such data are required to be precise and relevant to our research question or objectives.

With precise suitability, it is important that the reliability and validity of the secondary data sources and the method of collection are taken into consideration (Saunders et al., 2006, p.265). Majority of the articles that we used in this study are gotten from reputable databases and sources like Business Source Premier (EBSCO) and Emerald Fulltext; Elsevier ScienceDirect, Informaworld SSH, and Wiley Interscience. The constant existence of these databases and sources proves their credibility. Because of this, we acknowledge that the articles in these databases are likely to be reliable and valid. This is because the publication of articles in these databases and sources are carefully edited and screened to ensure that they are factual by their standards. Also, because the internet is not controlled (Saunders et al., 2006, p.265), there are free access to many articles online but not to the articles published in the databases and sources we used in this study thereby enhancing their reliability and validity. As for the method of data collection documented in these secondary sources, the criteria used to select the samples, the high response rate as well as the information embedded in the samples used, can shore up support for the reliability and validity of these data. This now enables us to free-mindedly use the information presented in these articles without fear of it being unreliable or invalid.
CHAPTER THREE - LITERATURE REVIEW

3.1 Introduction on choices of theories and their presentation

This chapter will dwell on previous or existing literature related to the area under study and tries to relate these existing literatures to this study. The main essence of this chapter is to enable us get a grasp of what is already known within our area of study such that we can maintain the originality of this study and not just simply “reinvent the wheel” (Bryman & Bell, 2007, p.93).

The choices we made for the inclusion of the literature in this section are based on the relevance of the literature to the subject matter. As we consider auditor independence and extended audit tenures, it is inevitable that literature on auditor independence and audit tenures be included in this chapter. Mentioned in our problem background, auditor independence had been a debatable issue for over 100 years, it will only be imperative that we zoom-in with a historic perspective about the roles different international auditing and regulatory bodies have played to uphold the auditor independence and support our assertion about its debatable nature. Our interest on these international bodies is because they generally set the tone for continental, regional and local bodies to follow. Conducting our sample survey in Sweden, it is vital that we give a brief historical account about the Swedish audit market and the endeavors made by FAR and the local laws to protect auditor independence. Next, we will address different types of threats that impair auditor independence. Auditor independence can only be impaired when they are confronted by threats to independence. Therefore, it is appropriate that this section expand on the types of threats and give examples to ease the understanding of previous and subsequent sections. Protecting auditor independence from impairment becomes a challenge to the auditor, audit associations and the clients as it greatly affects the auditor objectivity which is reflected in the audit. There is the scramble by all parties to safeguard the auditor independence which brings us to the section of categories of safeguards to threats to independence.

Though the literature review should stay concise and precise to its theme, for more clarity, it may be important to draw in some other related issues that may justify some of our assertions. Like we mentioned earlier, we do not consider extended audit tenures as the only source of threats to independence; therefore, we feel that it is important we give a brief discussion on at least another source of threats to independence that has been heavily criticized by both regulators and academics – non-audit services (NAS). Though NAS can be considered a related issue, it is closely linked to self-review threats to auditor independence. This is because it is based on the premise that one can hardly be critical of their own work, thus, independence and NAS. As explained above, audit tenure is one of the central tenets of this work; consequently, literature about audit tenure becomes absolutely important which is the next section below auditor independence and NAS. In the existing literatures we were able to read through, we discovered that a majority of them discussed on the economic viewpoint (low-balling). Referring to the original source of this economic viewpoint, we realized it was crucial that it be included as it angles on extended audit tenures and independence issues from an economic sense, hence its inclusion as the only sub section under audit tenure. Conducting a deductive study requires that hypotheses be developed. The relevant literatures already discussed in preceding sections provide the bedrock upon which the hypotheses will be developed and this characterizes our subsequent section. This chapter is rounded off by constructing our own model that gives a brief rundown of the core issues discussed in the entire literature review deciphered into our hypotheses.
3.2 History of auditor independence

This history has been somewhat overshadowed by most of the US professional, regulatory and legislative bodies. And these bodies set the pace for other professional and regulatory bodies in the world to follow. That notwithstanding, most of the professional and regulatory bodies took their rise from the US and even in this present times, they still align with the ethics, codes and standards set in the US. Most governments through the professional auditing associations or bodies have implemented auditing standards that particularly promulgate standards that focuses on auditor independence (Vanasco et al., 1997, p.498). Some of these standards are so strong that may tantamount to the auditor been expelled from their professional association if they by any means abate and violate the Code of Ethics. Mednick (1990, p.93) considers that part of the solution to resolve ethical failures regarding imminent threats to auditor’s independence is to place more emphasis on ethical codes of individual countries which are further strengthened by the ethical codes of IFAC.

It would be interesting to get a historical perspective about how independence has been viewed over the years by professional auditing bodies and regulatory bodies. It could clearly be seen that the way auditor independence is considered today, it is not in the same fashion as it was in the yesteryears. This greatly shows how independence has evolved over time and what pressure in terms of rules, laws and codes of ethics that professional and regulatory bodies have put in place to ensure that independence remains very relevant to auditors especially when they have extended tenures with their client. This sub section will drum up support for an earlier assertion we made about auditor independence been a contentious issue among professional and regulatory bodies.

3.2.1 The Role of AICPA and other Professional and Regulatory Bodies on Independence

The auditors in the American Institute of Certified Public Accountants (AICPA) just like their counterparts in different associations worldwide, are charged with the responsibility to attest on economic data presented by one party to another; and this attestation function will only be credible if the auditors are independent and competent (Vanasco et al., 1997, p.498). In situations when the auditor is not independent and their competence is questioned, the effect could be clearly seen in the financial statements in that such data cease to become credible as it cannot be relied upon for strategic economic decisions by users.

Independence has not been something of the present, but it stems right from the past. The earlier association of public accountants in the US called American Association of Public Accountants (AAPA) formed in 1887 did not recognize independence as a relevant issue and so did not consider it in its constitution and by-laws (Vanasco et al., 1997, p.499). Assuming a different name in 1916 from AAPA to American Institute of Accountants (AIA), this did not give much of a difference on the stance of independence by the predecessor. Not until 1931 that AIA recognized the relevance of independence when most Certified Public Accountants (CPA) repeatedly and continuously had dual functions of both directors and auditors of the same company which they were meant to be auditing (Vanasco et al., 1997, p.499). With such recognition, the AIA resolved that the dual roles of both director and auditor to the same company seemingly pose a threat to independence of the auditors who are suppose to safeguard both the interests of the public and the profession. This caused the AIA to include the financial independence rule in the Professional Code of Ethics which bared
its members or associates from expressing opinion on the financial statements of enterprises in which they have a significant financial interest; or use such financial statements to acquire credits in which the auditor is a beneficiary to such an enterprise, unless the auditors disclose in their report the financial interest they have in the enterprise (Vanasco et al., 1997, p.499). As early as in 1932, the AICPA council denounced auditors serving as officers or directors of clients. This denunciation proposed the concerns for the need to preserve appearance as well as independent in fact (Public Oversight Board [POB] 2000: 5.3, p.109). After enacting the Securities Act of 1933, regulations were issued by the Federal Trade Commission (FTC) stipulating that auditors who served as officers or directors and had direct or indirect interests in public clients will not be considered independent. This reason prompted the introduction of appearance as well as independence in fact as an independence concept (POB 2000: 5.3, p.109).

In 1936, the SEC lifted the ban against “any” financial interest to a “substantial” interest, that is, allowing auditors to hold an interest in a public client of at most one percent of the auditor’s personal worth (POB 2000: 5.3, P.109). But in 1950, the SEC again barred any financial interest by the auditor in public clients. In the months of January and March 1962, the AICPA adopted rules on independence in its Code of Professional Ethics that prohibited members, associates or partners to express an opinion on the financial statements of a client unless they are independent in fact with respect to the enterprise; and they should not have any direct or indirect financial interests in an enterprise under audit by them (Vanasco et al., 1997, p.499). On November 1972, the AICPA committee on auditing procedure issued statements on standards which emphasized on auditor independence in fact and appearance. In the 1980s, the Code of Professional Ethics was criticized as it was not considered to serve public interest; this led to the creation of the Anderson Committee in 1983 to review the code (Vanasco et al., 1997, p.499). The result of this Committee was the establishment of a new Code of Professional Conduct which reviewed limited liability, client confidentiality and whistle-blowing and auditor independence (Vanasco et al., 1997, p.499).

In 1994, AICPA instituted that firms as well as individual CPAs should exercise professional independence before accepting an audit position in a client’s accounting or financial reporting issues. A publication by the Professional Ethics Division in 1994 proposed interpretations of the code of professional conduct drawing clear distinction between client advocacy and client service. Both the audit standards and the Code of Professional Ethics made hard lines on independence as a pre-condition to expressing an opinion on financial statements (Vanasco et al., 1997, p.500). Still in 1994 in the month of February, an advisory panel on auditor independence charged with the responsibility to determine if the Security Exchange Council Practice Section (SECP), the accounting profession or the Security Exchange Council (SEC) should work better in the independence of auditors was formed.

Though the U.S. bodies set worked tirelessly, the European Commission (EC) of the European Union, EU, has not been dormant. It works in close association with IFAC and its bodies, and also with the La Fédération des Experts- Comptables Européens (FFE) which oversees the interests of the European auditors (Stevenson, 2002, p.155). In 1996, the Eight Directive of EC spearheaded by FFE on behalf of the European profession, produced a set of basic core principles to govern auditor independence
which the EC used as a consultative paper (Stevenson, 2002, p.156) However, since some countries had more commercialized external auditors and others had very stringent safeguards for auditor independence, this made it impossible to have a landmark rule on issues regarding independence thereby forcing the EC to delegate authority to Member States on matters related to auditor independence. This authority given to member states required that they ensure statutory auditors are sufficiently independent of their clients (Stevenson, 2002, p.156). Two years later, 1998, the EC Eight Council Directive specifically referred to auditor independence by name in Article 3, and Article 11 touched some sensitive aspects related to independence such as receipt of benefits from clients, economic dependence and consulting services (Stevenson, 2002, p.156).

With the strict stance by both the EC and SEC on consulting services and non-audit services, the latter was bound to succumb to extensive lobbying pressure by the profession’s Big Five audit firms and so watered down some provisions in the final independence rule to allow auditors to perform IT consulting services and internal audits to a client on the condition that they disclose certain information about the non-audit services performed in their annual proxy statements (SEC, 2000). In the aftermath of Enron, there was bound to be one last promulgated law on auditor independence. This was because Arthur Andersen, one of the Big Five audit firms, also collapsed as Enron fell from grace thereby providing “hard evidence” that the independence core value that constitute the bedrock of the profession has been lost (the free library, 2010). Thus, the Sarbanes-Oxley (SOX) Act which was enacted on July 30, 2002 by the U.S. Congress and came into force in 2003 in the United States was the last known rule passed till date that touches the auditor independence.

It could clearly be seen that independence is the foundation on which any successful audit relies on. If independence is tampered with, then it could be reflected in the audit report in terms of its quality. It may be possible that auditing a client for a longer period of time will provoke the auditor to have some kind of interest in the client. This may increase the auditors’ dependence on the audit fees, fees paid for providing non-audit services and other related benefits that comes with providing the audit services. There is also a greater risk of the auditor having a financial interest in the client be it direct or indirect. We think that an increasing reliance on the client is probable when the tenures are extended because then the auditor knows what they are gaining from the client and will not want to let go of such a client. Even if this comes with a price to their independence, they will always want to look for a safe ground within the client such that they can appear to be independent whereas they really are not. The table below represents a summary of the above discussed history of auditor independence.

<table>
<thead>
<tr>
<th>Year</th>
<th>Professional/Regulatory Body</th>
<th>Propositions made on auditor independence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1887</td>
<td>AAPA</td>
<td>Did not consider independence in its by-laws</td>
</tr>
<tr>
<td>1907</td>
<td>AAPA</td>
<td>Amends by-laws to express the desirability of avoiding incompatible functions</td>
</tr>
<tr>
<td>1931</td>
<td>AIA</td>
<td>Fully recognizes the importance of independence especially when auditors occupied dual roles of auditor and director of the same client</td>
</tr>
<tr>
<td>1940</td>
<td>AIA</td>
<td>Financial independence rules are instituted as a part in the code of Professional Ethics</td>
</tr>
</tbody>
</table>
### Table 2: History of auditor independence

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>AICPA</td>
<td>Publishes an article that emphasizes the significance of independence as the foundation of the auditing profession.</td>
</tr>
<tr>
<td>January 1962</td>
<td>AICPA</td>
<td>Adopted a rule as part of the Code of Professional Ethics that prohibits auditors from expressing opinion on a client’s financial statements unless they are independent in fact with respect to the enterprise.</td>
</tr>
<tr>
<td>March 1962</td>
<td>AICPA</td>
<td>Prohibits direct and indirect financial interests in a client that the auditor audits.</td>
</tr>
<tr>
<td>January 1972</td>
<td>AICPA</td>
<td>Adopted new rules of conduct regarding independence.</td>
</tr>
<tr>
<td>November 1972</td>
<td>AICPA</td>
<td>Issues a statement to emphasize the auditor independence both in fact and appearance.</td>
</tr>
<tr>
<td>1983</td>
<td>AICPA</td>
<td>Formed the Anderson Committee with the responsibility to review the Code of Professional Ethics.</td>
</tr>
<tr>
<td>1988</td>
<td>AICPA</td>
<td>Establishes a new code of professional conduct.</td>
</tr>
<tr>
<td>January 1994</td>
<td>AICPA</td>
<td>Publishes proposed interpretations of the professions Code of Professional Conduct to sharpen the distinction between client advocacy and client service.</td>
</tr>
<tr>
<td>February 1994</td>
<td>SECPS</td>
<td>Appoints 3 member advisory panel on auditor independence in order to determine if further actions are needed to strengthen the auditor independence as well as their integrity and objectivity on the judgments of GAAPS.</td>
</tr>
<tr>
<td>March 1994</td>
<td>POB</td>
<td>Announced the formation of a special panel to look into matters concerning the auditors’ objectivity and independence.</td>
</tr>
<tr>
<td>September 1994</td>
<td>POB</td>
<td>Advisory panel issues a report titled “Strengthening the professionalism of the independent auditor.”</td>
</tr>
<tr>
<td>1996</td>
<td>EC</td>
<td>Produced a set of basic core principles to govern auditor independence used as consultative paper.</td>
</tr>
<tr>
<td>1998</td>
<td>EC</td>
<td>Referred to auditor independence by name in Article 3 and touched some sensitive aspects related to independence in Article 11.</td>
</tr>
<tr>
<td>2000</td>
<td>SEC</td>
<td>Watered down some provisions in the final independence rule to allow auditors to provide certain services to the client on the condition that they disclose certain information in their annual proxy statements.</td>
</tr>
<tr>
<td>July 2002</td>
<td>U.S Congress</td>
<td>SOX Act</td>
</tr>
</tbody>
</table>

### 3.2.2 Brief history of the Swedish audit

For the first time in 1895, it was stipulated in the Companies Act in Sweden that limited companies should have one or more auditors (Wallerstedt, 2001, p.847). However, before 1895, the practice of appointing auditors was common but such appointments were usually based on the good relationship the auditors had with the management of the company (Wallerstedt, 2001, p.847). This implies that independence was not considered to be extremely relevant at this time since the auditors needed to identify themselves with the client’s management through a good relationship before they could be appointed. This good relationship could simply involve being a friend to the CEO or a senior level management staff. Wallerstedt (2001, p.847) continue to say that most of the auditors also lacked proper knowledge about bookkeeping to detect errors in the accounts, and in the end of the nineteenth century, the debate was strong about revising the law as a result of extensive frauds. In 1899, the professionalization of the auditing...
practice in Sweden began with the creation of the Swedish society of auditors (Svenska revisorssamfundet, SRS). In 1912, the first six auditors were authorized by the Stockholm Chamber of Commerce (Stockholm’s handelskammare) but there were still no laws for companies to appoint authorized auditors (Wallerstedt, 2001, p.847). The conditions to be authorized as a public accountant required an applicant to obtain a degree from the Stockholm School of Economics (Handelshögskolan I Stockholm) and that the applicant should have had three years of practice under an authorized accountant as well as being over 25 years old. That noted, though independence was not extremely monitored, however, in the early years of the twentieth century, an applicant was not required to be employed in a private or state owned business. These rigid conditions meant that most of the members of SRS could not meet these conditions and consequently they could not be accredited and authorized to work as authorized auditors. This led to the formation of Swedish institute of authorized public accountant (FAR).

In the 1930s, a financial scandal shocked Sweden - the Kreuger case. The fraud was discovered in 1932 and was the single most critical event that shaped the auditing profession in Sweden until modern time. Kreuger was the owner of Swedish Match, which was the market leader in the match markets across Europe in 1921 (Wallerstedt, 2001, p.851). In the wake of the stock market crash in New York in 1929, many banks called in their loans which led to the crash of the Krueger consortium which had been granted loans in the international market at very low interest rates in exchange for a monopoly in their markets. In the investigation of the company’s accounting system, many weaknesses were identified that caused the crash (Wallerstedt, 2001, p.851). Criticism was then directed at the way in which the auditors of the Kreuger companies had done their auditing. The Swedish government assigned Price Waterhouse Coopers (PWC) to undertake the investigation. The investigation led by PWC served as the initial entry of big international audit firms in the Swedish audit market (Wallerstedt, 2001, p.853).

In 1944, the new Companies Act established a protection to the title ‘authorized public accountant’ after it became required for listed companies to appoint authorized auditors (Wallerstedt, 2001, p.855). There was however still no possibility regarding the legislation to force the companies to use an authorized public accountant because of insufficient number of auditors. In 1983, the number of auditors was thought to be sufficient, so the legislation was changed to that every limited company was required to appoint an authorized or approved auditor (Wallerstedt, 2001, p.855). Recently in a government public inquiry (SOU 2008:32) it is suggested that the general requirement from 1983 to appoint an approved auditor shall be abolished and the new rules should be taken into effect from July 1 2010. Some of the auditors’ tasks are regulated in law but they are not comprehensive. FAR have passed rules of professional conduct which guide the auditors in their work (FAR, 2008). These codes of conduct include for instance, confidentiality, integrity, objectivity and independence.

<table>
<thead>
<tr>
<th>Brief history of the Swedish audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1895</td>
</tr>
<tr>
<td>1899</td>
</tr>
<tr>
<td>1912</td>
</tr>
<tr>
<td>1923</td>
</tr>
<tr>
<td>1930’s</td>
</tr>
</tbody>
</table>
Chapter Three – Literature review

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1944</td>
<td>Authorized public accountant became a protected title</td>
</tr>
<tr>
<td>1983</td>
<td>General requirement to appoint an approved auditor</td>
</tr>
<tr>
<td>2010</td>
<td>Abolishment of general requirement to appoint an approved auditor.</td>
</tr>
</tbody>
</table>

Table 3: Brief history of the Swedish audit

In Sweden, the auditors do not only review companies’ financial information in the annual reports, but they also check the management’s running of the firm. That is, “the stewardship of management” (Burrowes & Persson, 2000, p.90). The internationalization and harmonization of auditing practices in recent years has also forced Swedish auditors to conform to international accounting and auditing standards: IFRS (International Financial Reporting Standards) and ISA (International Standards on Auditing). The third paragraph of the auditing act in Sweden (Revisorslag) (SFS 2001:883, p.2) says it is Redovisningsnämnden’s (The auditing board in Sweden) responsibility to rule on approvals, accreditation and registration with respect to the act, they should also supervise and audit activities of accountants, registered public accounting firms and auditors from third countries. The auditing board should also rule on disciplinary and other actions against accountants, registered public accounting firms and auditors from third countries, as well as, being responsible to ensure that ethics and auditing standards are developed in an appropriate manner.

There are some conditions in the Swedish legislation expressed as conflict of interest policies in the Incorporated Companies Act (Aktiebolagslagen) (SFS 2005:551) that help to safeguard the independence of the auditors. The first condition is that the auditor cannot hold shares in the company that he or she audits. The auditor also cannot be a member of the board or the executive director of the company. The auditor must not be active or employed by the company and not have any kinship with any person in the company. In addition to these conditions, the auditor may not have any loans or borrowings in the company or any subsidiary to the company.

With independence been a contentious issue for auditing, regulatory, governmental and regional bodies especially when long tenures are involved, there have been increasing awareness and documentation of the different types of threats to independence and, safeguards to these threats to ensure that independence remain intact. The sections below will identify these threats, and the safeguards either at the auditing firm level, client firm level or regulatory level to ensure that auditors’ independence is not impaired.

3.3 Independence threats and Safeguards

Eilifsen et al. (2006, p.579) defines threats to auditor independence as pressures and other factors that impair or are perceived to impair an auditor’s objectivity. Threats can either have the likelihood of occurring or not occurring in the audit process and the threats can be significant individually or in combination. If these threats crop up in any engagement services, then there is an issue of independent risk. Independent risk is determined by the likelihood that there will be a compromise of the auditor’s objectivity, thus independence, which will either compromise or appear to compromise the reliability of the investors and other users of the audit report (Eilifsen et al., 2006, p.579). This means that there is need to uphold the auditor independence considering their very vital role in any business set up. This could be possible by implementing or putting in place safeguards that will completely eliminate or reduce the threats to a
minimal acceptable level. Safeguards to auditor independence are controls that mitigate the effects of the threats (Eilifsen et al., 2006, p.579).

Before accepting any engagement agreement, the auditor is charged with the responsibility to identify and assess any circumstances that may threaten their objectivity and any perceived loss of their independence; and put in place measures, safeguards, that will either completely eliminate the threats or bring them to a minimal level which will have no impact on their objectivity as well as independence (APB 2004, Para 27, p.11).

The aggregate risk arising from different threats must be assessed acceptable to independence risk as their effects may be cumulative. The level of the independence risk arising from different activities, relationships and circumstances will largely depend on the views of well knowledgeable investors as well as other users of financial statements (Eilifsen et al., 2006, p.579). The independence risk can be determined if a vivid assessment of the significance of the threats and the effectiveness of the available safeguards are undertaken by the auditors (Eilifsen et al., 2006, p.579). There are two things that must be done if the independence risk is unacceptable; take actions to reduce the threats to an acceptable level, or withdraw the partner or audit firm from the engagement.

3.4 Categories of threats to independence

- Self-interest threats.
- Self-review threats
- Advocacy threats
- Familiarity threats.
- Intimidation threats.

The following sub sections below discuss and give examples on each of the above outlined threats.

3.4.1 Self interest threats
This occurs when the auditors favor or is perceived to favor their own self-interest over the interest to perform an unbiased audit (Eilifsen et al., 2006, p.580, 589, 591). This may arise from auditor’s financial, emotional or other personal interests in the clients. Examples include:

- Direct financial interest or indirect material financial interest in the client company (Hayes et al., 2004, p.87).
- The IFAC code of ethics prohibits individuals with the ability to influence the audit engagement to have ownership interest in the client company. If for instance, a secretary in Ernst Young owns shares in a client company and the secretary is not an engagement partner of the client, then there is no independence risk. However, if the secretary becomes an engagement partner, he or she has to completely disclose his or her ownership status. If not, then his or her actions could be seen as a threat to independence in both facts and appearance with respect to the client (Hayes et al., 2004, p.88).
3.4.2 Self-review threats
This is when there is a difficulty to evaluate without bias the auditor’s work or that of their firm (Eilifsen et al., 2006, p.580, 589, 591). This may emanate from the auditor or a member of the audit team having a direct or indirect influence on the subject matter of the audit. That is, for example, a member on the engagement team was an employee of the client (in particular director or officer) in a position to exert significant influence over the subject matter of the assurance engagement. Examples include:

- The discovery of a significant error during a re-evaluation of the work of the professional accountant in public practice.
- Reporting on the operation of financial systems after being involved in their design or implementation.
- A member of the assurance team being or have being recently working as a director or an officer of the client.
- Performing a service for the client if it directly affects the subject matter of the assurance engagements. (Eilifsen et al., 2006, p.580, 589,591; Hayes et al., 2004, p.89 and IFAC Handbook, 2008).

3.4.3 Advocacy threats
This is when the auditors act in bias when advocating for or against the client. That is the auditors subordinate their judgment to that of the client. Examples include:

- Selling, underwriting or otherwise dealing in financial securities or shares of an assurance client.
- Acting as an advocate for litigation cases or disputes on behalf of the client. (Eilifsen et al., 2006, p.580, 589,591; Hayes et al., 2004, p.89 and IFAC Handbook 2008)

3.4.4 Familiarity threats
This occurs when the auditors compromise their objectivity as a result of a close relationship with the client. Examples include:

- A long association of a senior member of the audit engagement team with the client.
- Accepting undue hospitality or gifts or other forms of preferential treatment from a client.
- A family member (e.g. spouse, blood brother or sister, child, father or mother and other dependents) who holds a sensitive position in the client firm that will significantly affect the audit engagement team’s functions. (Eilifsen et al., 2006, p.580, 589,591; Hayes et al., 2004, p.89 and IFAC Handbook 2008)

3.4.5 Intimidation threats
This arises when the auditor is deterred from acting objectively because they are being or perceived to being prevented either overtly or covertly by the client or interested parties. Examples include:

- Threatened with litigation.
- Threatened with dismissal or replacement over a disagreement about an application for an accounting principle or policy of the client.
Chapter Three – Literature review

- Pressured to unjustly reduce the extent of work to be done in order to reduce fees. (Eilifsen et al., 2006, p.580, 589,591; Hayes et al., 2004, p.91 and IFAC Handbook, 2008)

It is important to note that these threats are neither mutually exclusive nor exhaustive. But the above constitute the main threats that are so glaring in most professional engagement.

The threats to auditors independence will very much follow amass when they have an extended tenure. Though threats are always potentially dangerous to short and extended tenured auditors, the extended tenured auditors may stand a greater chance of getting affected by the malaise of these threats. If each of these threats is properly understood, we can realize that the impacts felt by a short tenured auditor when confronted with these threats could be far less than that of an extended tenured auditor. With the increasing risks that these threats pose to independence, if safeguards are not put in place to check them, then it could just be possible not to consider auditing as been relevant to users. This is because the perception of the users of financial statement on the audited financial reports will be low and so this will make the entire auditing process worthless. There is ever a dire need for auditing practices to continue to exist based on its relevant to users. Therefore a nagging problem such as threats that can greatly impair independence must be dealt with on a continuous basis. The best way to do so is by considering safeguards that are not only relevant to mitigate the threats, but are also effective in arresting them, in order to preserve the cornerstone of the auditing profession which makes it so sacred. These safeguards are of different categories as exemplified below.

3.5 Categories of safeguards to threats to independence

- Safeguards created by the profession, legislation or regulation.
- Safeguards within the auditor and audit firm’s own system and procedures.
- Safeguards created and maintained within the client.

3.5.1 Safeguards created by the profession, legislation or regulation.
These are safeguards present in ethical or professional standards or laws (legislation) as well as acts or rules put in place by professional, legislative and regulatory bodies respectively to deter threats and preserve the auditor’s independence. These may include:

- Professional accounting and auditing ethical standards.
- Professional rules and legislation governing independence requirements of firms.
- Educational training and experience requirements before becoming a certified practitioner of the profession and peer review of quality control. (Hayes et al., 2004, p.91).

3.5.2 Safeguards within the auditor and the audit firm’s own system and procedures
These are firm-wide safeguards implemented by the auditor which guides the procedure of undertaking task within the audit firm’s system. Examples of such include:
• Leadership of the firm constantly stressing on the importance of independence.
• Policies and procedures that ensure and assure quality control of engagements.
• Appointing a senior member to oversee the adequate functioning of the safeguard system.
• Making use of different partners and engagement teams with different reporting lines for the provision of non-audit services.
• Constant rotation of senior personnel.
• Implement a disciplinary mechanism to promote compliance with policies, procedures and fundamental ethical standards and principles.
• Policies and procedures that monitor and manage the reliance of revenue received from a single client. (Hayes et al., 2004, p.91)

### 3.5.3 Safeguards created and maintained within the client

These are safeguards created and maintained within a particular client as the threats that may be involved may not be the same from client to client. Examples include:

• Competent employees with experience and seniority that can take managerial decisions within the client.
• Internal procedures within the client that ensure objective choices in commissioning non-assurance engagements.
• An effective corporate governance structure like the audit committee in the client firm that provides appropriate oversight and communications regarding the firm’s exercises.
• The client’s commitment to fair financial reporting. (Eilifsen et al., 2006, p.592; Hayes et al., 2004, p.91 and IFAC Handbook 2008).

It should be noted that different safeguards can be used to mitigate different threats, and one safeguard can be used to mitigate more than one threat simultaneously (Eilifsen et al., 2006, p.593). Because of the relevance of safeguards to the objectivity and hence independence of the auditor, auditors should seriously consider the importance of existing safeguards as well as new safeguards that will assist in combating these threats.

Being either a short or extended tenured auditor, the professional auditing bodies require the auditing firms to have the necessary safeguards in place to shield their independence. Though the professional bodies have well outlined safeguards, the auditors do face different clients that pose varied threats to their independence. The auditors’ safeguards should be such that they can easily detect, prevent and correct any threats that can arise to threaten their independence. Auditors who do have extended audit tenures must have to adapt their safeguards to the changing times. It is on very rare cases that the clients’ businesses do not change over time, and as these changes occur, there are a lot of challenges and threats that appear along with them. Auditors who do have extended tenures stand a greater risk of losing their independence if their safeguards remain the same as the business landscape of their client changes. This is because some of the safeguards could simply be out of place to face the new threats that surface.

The threats to auditor independence do not come from space. These threats emerge mostly from the actions of the auditor. It is important to identify some of the two most important sources we think that help propel these threats. These are the provision of
non-audit services and the audit tenure which is one of the central themes of this study. The ensuing sections will “romp” through on non-audit services and how it relates to our study.

3.6 Independence and Non-Audit Services (NAS)

The provision of NAS by auditors especially when they are incumbents has been a hotly debated issue among policy makers, practitioners, academics and researchers (Beattie et al., 1999, p.71). It has been a common practice for auditors to perform NAS to their clients. As the audit tenure extends, the auditors stand a greater chance of earning more NAS because of increased knowledge of the client’s business operations which eventually result to knowledge spillover (Beattie et al., 1999, p.71). The issue that comes to mind is whether there is or are there threats to auditor independence when they perform these services. Some proponents dispute the claim that auditor independence can be subconsciously impaired when they provide NAS as a result of a conflict of interest as most of the NAS are management related. Since most of these NAS are management related, the management will feel more comfortable letting an extended tenured auditor to undertake the tasks rather than a short tenured auditor. This is because they think they now know the auditors better and can trust them to come to their aid when they need them. It could be implied that auditors with extended audit tenures now serve two groups of persons; the management who depends on management consulting services and the audit committee or shareholder who rely on the audited financial statements for decision making (POB 2000:5.25, p.115). Since the auditors with extended audit tenures are duty bound to serve with loyalty to both parties, these dual loyalties create a serious appearance problem. Most members of the public will rather focus on independence in appearance than independence in fact; and proponents against the provision of NAS see this as very damaging to the auditor independence because instead of protecting the public, they are forming alliances with the management.

Some other groups believe that auditors with extended audit tenures can provide both audit services and NAS to its clients, with proper safeguards and disclosures, and still maintain objectivity and independence. This group holds that no “draconian measures” should be put in place to hinder the provision of NAS to clients by auditors except these services will impair objectivity and independence, thereby putting the public interest at great risk (POB 2000:5.4.1, p.127). It is considered that the provision of NAS is both for public interest and helps to enhance the effectiveness of the audit (POB 2000:5.4.4, p.127). For instance, a company may need an auditor with extended audit tenure to help identify and correct control weaknesses during the audit process. This is going to benefit the public as the control system will be strengthened to better enhance the company’s financial reporting process and this increases the audit effectiveness as the auditor gets to add value to the client’s control system with their vast knowledge which spills back to the audit. This results to a knowledge spill-over through the entire auditing process. These proponents further argue by saying that the client’s audit committee is in a better position to specify the respective NAS to be provided that do not impair the auditor independence; and whether any threat on independence arises in the course of providing these services. If threats arise, such a service must be cancelled from the contract so that the auditor independence remains unimpaired.

The NAS debate further holds that the income earned from the provision of these services can make auditors with extended audit tenures audit to be economically dependent on the audit client (Kinney et al., 2004, p.565). DeAngelo (1981, p.117)
model suggests that as the economic bond between the auditors and their clients increases, the auditor independence decreases due to increase dependence on the client. This increasing dependence may reduce the auditors’ willingness to challenge any misstatements of the client’s financial statements thereby impairing their independence especially as they have an extended tenure. According to Antle et al. (2002, p.7), the appropriate measure of economic dependence of any audit firm is based on the abnormal audit firm profit of the client. But since abnormal profits are non observable profits, the revenues of audit firms with extended audit tenures are mostly considered as a reasonable measure of economic independence; and NAS are believed to yield higher profits than audit fees.

Gwilliam (1987) cited in Canning and Gwilliam (1999, p.403), drifts away from the economic perspective to opine that the penalty function associated to substandard auditing, if it is in terms of litigation costs, loss of audit reputation or higher insurance premiums may act to ensure that the auditors carry out their functions adequately. This could be viewed as the fear of litigation proceedings with high costs to be paid may prevent the auditors from engaging into any acts that may damage their independence and reduce the standards of the audits. What is considered a quality audit may prevent these sanctions if they act in the desired manner. If their actions are contrary, it is considered that the management has authority over the auditors as a result of their extended tenure. Mitchell et al., (1993, p.16) strengthens this non-economic view by proposing that the provision of NAS by audit firms leads to unfair competition as it abuses the statutory monopoly of the external audit function and act as a disadvantage to those firms that cannot use pure audit services as a market stall for selling other wares. Auditors with extended audit tenures should act exclusively as auditors and be prohibited from providing NAS to clients. The main reason for this been that this presents an unfair competition in the audit market against other firms that cannot provide such services, thus reducing the undue preference that are given to audit firms with extended tenures in a client.

In contrast to both the economic and non-economic view points, Johnson and Lys (1990, p.286) are of the opinion that audit firms have an incentive to strive for service expertise particularly using their audit client base for cross-selling of NAS as a way to achieve economies of scale in marketing costs and possibly in their service supply cost. The audit firm with extended tenures in clients will most definitely benefit from such association as this sends a visible signal to other non-client firms in the market, and if such visible signals are favorable, there becomes a reduction in the costs they incur to market their services. Jeppesen (1998, p.521) goes further to say that auditing on its own is not very important to the client but something extra has to be delivered in order to make it relevant. This something extra comes in the form of spin-offs. If auditors with extended audit tenures are allowed to provide NAS across the market that is even to non-clients, this may reduce their reliance on a single audit client (Grout et al., 1994, p.330). This singular act will help resolve the problem of independence that may emerge based on the reliance on fees from a single client.

In spite of the provision of NAS by audit firms to their clients being helpful to enable the audit firm better know the client’s business operation and provide a better audit (Goldman & Barlev, 1974, p.715); Hillison and Kenelley (1988, p.36) holds that the separation of NAS to different divisions will help to enhance the auditor’s independence rather than placing a ban on auditors providing NAS. That is, when an auditor with
extended audit tenure provides both audit services and NAS; they should consider
separating these functions across divisions in the auditing firms. No one division should
provide both services, each division should specialize on providing just a single service.
This will be seen as a boost to their independence despite their extended tenures. This
view is further strengthened by the empirical studies undertaken by Pany and Reckers
(1984, p.32) which advocates that auditor independence impairment risk is decreased
where personnel providing NAS and audit services are kept separate. This study raised a
question about the ability of small audit firms to offer these NAS and remain
independent as they may lack the manpower to enforce this specialization. To attempt to
answer this question, Mautz and Sharaf (1961, p.277) propose that small firms should
be prohibited from providing NAS on the assumption that fees gained from these
services constitute a major source of revenue for the small firms and are more than the
audit fee. This will now require that each small firm choose whether to perform NAS or
carry out only an audit. Having specialized teams within the audit firm of the auditors
that provide various services could be a welcome relief to independence but it may be
very challenging to the independence of an audit firm that has an extended tenure. It is
thought that there is a tendency for the specialized teams for NAS and those for auditing
services at some point in time to collude as they both are employees of the same auditor.
This collusion puts the independence of the auditors with extended audit tenures into
question.

To further strengthen the above literatures, the IFAC Code outlines some non-audit
services that auditors cannot provide to their clients. These services include:

- Management level decision making functions that may involve authorizing or
  exercising authority on behalf of the assurance client, determining which
  recommendations should be considered and reporting in a management role to
  those charged with governance.
- Bookkeeping services which include preparation of financial statements, payroll
  services, and entries recording services in the books of accounts.
- Corporate financial and other similar service like underwriting of a client’s
  shares, consummate a transaction on behalf of the client, promoting or dealing in
  a client’s share and committing a client to the terms of a transaction.
- Litigation support services. That is at no point should the auditor act as an
  advocate for the client as this will deeply jeopardize their independence.

As providing NAS could greatly affect independence since it is a source for threats to
independence, the audit tenure could also be as controversial as NAS. It is probable that
auditors with an extended tenure will provide more NAS than auditors with a short
tenure because of the knowledge about the client’s business operations they are able to
accumulate over time with their extended tenures. Therefore, it is imperative to shade
some light on what is thought about audit tenure.

3.7 Audit Tenure
Extended audit tenures have received much criticism from regulatory bodies,
congressional bodies, academics and the press (Gul et al., 2007, p.120). This is because
most proponents against long (extended in our case) tenure like the regulatory bodies
believe that the auditor independence will be impaired and hence the audit quality. They
are of the opinion that when the auditors have extended audit tenures, there is the
tendency for the auditors to gradually align themselves with the wishes of the
management and hence cease to be independent (Geiger & Raghunandan, 2002, p.67). Mautz and Sharaf (1961, p.208) also acknowledge that extended associations with the same client can lead to problems with independence though such associations in themselves are not detrimental. Simply put, not all extended associations with a client can impair independence so long as the auditor remain as an advising arm to management and not join them to perform their tasks.

Another aspect been denounced is that the work of the auditor becomes increasingly routine when they have an extended audit tenure (Arruñada & Paz-Ares, 1997, p.45). Extended audit tenures make the audit work to become routine which affects the competence of the auditor. This is because working with the same client for a long period will increase the auditor reliance on previous years’ work thereby resulting to a repetition of the previous years’ audits without any fresh perspectives. But in a case where the auditors are required to be rotated, implying an elimination of extended audit tenures and thus shorter tenures, the auditors bring “fresh views” requiring an in-depth review of the previous years’ audit work (Arruñada & Paz-Ares, 1997, p.46).

On the other hand, extended audit tenures in themselves, are not detrimental as most results from research (e.g. Knechel & Vanstraelen 2007; Carcello & Nagy 2004; Myers et al., 2003; Geiger & Raghunandan 2002; and Johnson et al., 2002) have shown. Those who support long associations are of the opinion that extended audit tenures could be beneficial to the audit firms or auditors as they garner firm specific knowledge. Though the auditor may have the auditing expertise and the industry knowledge, they may lack the adequate client/firm specific knowledge to ensure an effective and quality audit (Myers et al., 2003, p.780; Geiger & Raghunandan, 2002, p.70; and Barton 1991). This client knowledge comes with extended audit tenures because in the early stages of the audit, the auditor may fall short of this knowledge and the quality of the audit may suffer. As evident in Myers et al. (2003, p.780), another view by proponents for extended audit tenures also suggest that start-up audit costs will be higher at the initial years of the audit. They argue that short audit tenures will increase audit start-up costs and increase the risk of audit failures as there will be increasing reliance by the auditors on the client’s estimates and representation in the initial years of the audit (Myers et al., 2003, p.780). It is important that we point out some interesting literature about the economic view point that is mostly referenced in articles that write on auditor independence and audit tenure respectively.

3.7.1 Economic View

It is difficult to talk about audit tenure without mentioning the economic view point. According to DeAngelo (1981, p.118), incumbent auditors earn quasi-rents for maintaining the same clients for longer periods than gaining new clients because of high start-up and transaction costs associated with new clients. Because of this, the auditors gets in to the “low-balling” practice, that is to price the initial audit at a lower cost since future quasi-rents will be generated if the auditors have extended audit tenures. From this economic standpoint, “low-balling” is a natural competitive factor in the auditing business that enables them to obtain new clients and earn the rights to future quasi-rents to be received from the clients (Geiger & Raghunandan, 2002, p.70). As a result of this low-balling practice to recoup start-up losses through the rights to a future quasi rent, it is most likely that the auditor independence will be impaired in the initial years of the engagement. As the constraint theory holds, such costs are not suppose to be relevant when making decisions because they are sunk cost. But indeed, previous researches in organization behavior (e.g. Staw 1976; and Kleinman & Palmon 2000) have shown that
these costs are hardly ignored when decisions are made (Geiger & Raghunandan, 2002, p. 70). Therefore, these costs will most definitely affect the auditor’s decision making process as regards to keeping the client long enough to ensure that they enjoy from the stream of future quasi-rents. Dye (1991, p.349) further strengthen this argument by considering that outsiders will judge as incorrect, financial statements that are audited by auditors who have not earned quasi-rents; and clients will want to give the auditor a positive level of quasi-rents so as to increase the most favorable report the auditor is willing to attest to thereby attempting to influence the perception of outsiders on the firm’s economic condition.

Getting a grasp on the knowledge about independence and audit tenure, we will proceed to develop our hypotheses. Mindful of the fact that extended tenures can pose a threat in itself and as a source of threats to auditor independence; it could as well help to improve on the general audits. Our hypotheses below, connects extended audit tenures to each specific threats to independence based on the impact they may have on auditor independence.

3.8 Hypotheses Development
As discussed in the above literature on threats to independence, there is every reason for auditors and their clients to be conscious about the effects of these threats as not only independence is at risk, the objectivity of the auditor too is lost which culminates to a low quality audit. Each threat to auditor independence is transformed into a hypothesis relating extended audit tenures, the type of threat and auditor independence.

Considering the self-interest threat; for instance, if the auditor has either a direct or an indirect financial interest in a client, this could affect his/her independence. It is believed that auditors are privy to pertinent information about the client that is not available to outside third parties. Their privilege to such information comes along with their longevity with the client. In other words, the more extended the audit tenure is, the more access the auditors will have to pertinent information that they can use for their own self interest. We presume that extended audit tenures increases the privilege to pertinent information which could be use for the auditors’ self interest thereby impacting the self-review threat which may affect the auditor independence.

H1: Extended audit tenures have an impact on self-interest threat that affects auditor independence.

Similarly, how independent auditors can be when they are reviewing their own work is a serious thing to consider. Most auditors undertake other services for the clients other than the audit. The successes of these services largely depend on the knowledge the auditor has about the specific client. Such knowledge is not adequately present in a new engagement; it comes with how long the auditor has served their clients. Having extended audit tenures could guarantee the success of an “other services” but it could seriously weaken independence. This is because the auditors will be auditing the output of a system they helped to design and implement. Therefore, there is an increased odd that extended audit tenures may have an impact on self-review threat which may affect the auditor independence as stated in hypotheses below.

H2: Extended audit tenures have an impact on self-review threat that affects the auditor independence.
Being privilege to pertinent information could be good business to outside parties if and only if they can lay their hands on such information. With the auditor already enjoying this privilege, getting into advocacy for the sake of the client sounds good to outsiders as they can readily believe such information; but this comes at a cost to the auditor independence. As mentioned earlier, the auditor access to pertinent information comes with longevity in service with their clients. The auditor could serve as a better channel to undertake advocacy for the clients when they have extended audit tenures as they could easily be trusted by outside players. The longer the auditors stay with their clients, the greater are the possibilities of them advocating for the client. This leads to the third hypothesis:

**H3:** Extended audit tenures have an impact on advocacy threat that affects the auditor independence.

The acceptance of gifts or hospitality by the auditors from the client as implied by the familiarity threat is damaging to the auditor independence. Though gifts and hospitality can be given to auditors no matter how long they have audited the clients, we think that the risk associated with familiarity threat increases with extended audit tenures because of the cordiality that may have been built over time. That is, an auditor with a shorter audit tenure is likely to get less familiar with the client than the one who has had extended audit tenure. We presume that as tenures extend, there could be a rise in the familiarity threat which can impact on the auditor independence. This gives a fourth hypothesis:

**H4:** Extended audit tenures have an impact on familiarity threat that affects the auditor independence.

When the management of the auditors’ client cannot get through to the auditors with their wishes, they may resort to intimidation. It could be considered that intimidation threat is only possible when the auditor has not serve the client for long, but it could also be a risk when the auditors have had an extended tenure. This is because the auditor probably must have taken sides at times with the management on similar or related issues such that the management believes the auditors are compelled to align themselves with their wishes whenever such a need arises. We presume therefore that extended audit tenures impact on intimidation threat which in turn affects auditor independence, hence the fifth hypothesis:

**H5:** Extended audit tenures have an impact on intimidation threat that affects the auditor independence.

The above hypotheses may not hold true. Extended audit tenures may not necessarily be associated to threats to independence. That is, extended audit tenures may not lead to increases in the threats to auditor independence. Like earlier mentioned, if the safeguards implemented are effectively followed through, then this could just be a silver lining, thus, extended audit tenures will not endanger the auditor independence in any ways. Hence the sixth hypothesis:

**H6:** Extended audit tenures do not impair on auditors independence on the basis of any type of threats to independence.
3.8.1 Model for hypotheses

In order to better visualize our hypotheses, we have constructed our own model based on the previous research in our literature review:

As previously discussed; auditors and clients may seek extended tenures for various reasons. Unfortunately, this study does not by any means focus on such reasons but rather on the impact extended audit tenures may have on the auditor independence. As mentioned in earlier chapters, it may be possible that extended audit tenures become a source of threats to auditor independence. That is, it may be a source for the emergence of threats - these threats include: self-review, self-interest, advocacy, intimidation and familiarity threats. The threats may either impair the auditor independence individually or collectively based on the circumstances in which they auditors find themselves. But the bottom line is that these threats when they emerge, they affect the auditors function through the audits as the auditors may cease to be objective since their independence is impaired. Though not presented in the model but implied in its explanation, there are circumstances in which extended audit tenures could be of tremendous help to the clients in terms of the quality of the audit when there are safeguards to threats to independence. To be able to add value to the audits, auditors faced with extended audit tenures, should adhere to safeguards to threats to independence as put in place within the client, auditor firm and the local auditing associations in which the auditor belongs. As we mentioned earlier, just having these safeguards will not by any means protect the auditor independence. But having and strictly adhering to them, may imply that extended audit tenures could not be a source of threats to independence and hence do not impair the auditor independence.
CHAPTER 4 - RESEARCH DESIGN

In this chapter, we describe how we have practically carried out our study and the practical considerations of the research design we used. Initially in the chapter, we will discuss the research sample, how we constructed the questionnaire, and data collection. Furthermore we will also perform a critical examination of our primary sources and discuss about the quality criteria of the research.

4.1 Research sample
The main purpose of the study is to examine whether auditor independence can be impaired when auditors have extended tenures with a client. To be able to fulfill our purpose, we have used the five threats to auditor independence identified in our literature review. In our study, our primary source was gathered through a standardized web survey (see appendix). Because of time and funding limits, a web based survey was the best way of getting the data we wanted from our respondents. The web based survey was administered to a sample of approximately 1,250 qualified auditors who are members of FAR, the population under study. Time constraints made it impossible to consider all, approximately 3,800 qualified (authorized or approved) auditors that are members of FAR; hence we have chosen to make a systematic probability sample. A probability sampling means that one knows the probability that each unit in the population are selected and all units have the possibility of being a part of the sample (Ejlertsson, 2005, p.20).

A systematic sample means that units are chosen directly from the sampling frame, that is, we are not using a random selection table. We wanted a sample of at least 125 auditors and hence we chose to make our sampling frame to consist of approximately 1,250 auditors. A response rate of 10-15 % was our expectation for the survey. We sent the survey to every third auditor with start from the third (which was chosen randomly) auditor in the list of possible respondents (the sampling frame). When using a systematic sampling technique, it is important to ensure that there is no inherent order or structure in the sampling frame since it can create distortions in the sample (Bryman & Bell 2005, p.116; and Ejlertsson, 2005, p.20). To the best of our knowledge, we have examined our sampling frame and found neither any inherent order nor structure. The sampling frame consists of approved and authorized Swedish auditors who are members of FAR and they are listed by name, which leads to no structure or inherent order in age, gender, geographical location, firm size or ethnicity. As there is no inherent order in our sampling frame, Ejlertsson (2005, p.20) argue that a systematic probability sample provides an unbiased sample of the population. Körner & Wahlgren (2005, p.23) further indicates that if there is no systematic error (bias) in the sample the differences between the sample and the population depends on chance.

4.2 Questionnaire design
In standardized surveys, the questions appear in a specific order and are presented in the same way for all the respondents (Christensen, 1998, p.120). Our survey aim to measure the effect that an extended audit tenure has on auditors’ independence based on their views and because of that, we have chosen a standardized web survey. There are both advantages and disadvantages in using a web-based self-administered questionnaire. The advantages are lower printing and postal costs, as well as faster delivery and no geographical constraints. A web-based survey also reduces the likelihood of data entry errors conducted by the authors. The main problem with web-based surveys is the lower response rates than traditional survey modes (Manfreda et al., 2008, p.81). In our web
survey, we use structured response options which means that the respondents have a given number of options to take into consideration. This leads to closed questions, which eventually leads to the risk of a controlled response. However, closed questions are a good choice when the survey is meant to measure attitudes (Christensen, 1998, p.120). Since we are studying the effect that extended audit tenures have on auditor independence caused by threats to independence which could be viewed as attitudinal in nature towards extended audit tenures, we argue that it is a reasonable choice to use closed questions in our survey.

In the questionnaire, we use Likert scales which are a suitable way to measure the respondents’ attitudes. A Likert scale consists of one or many similar claims which the respondents choose whether and how strong they agree or disagree with a claim on a five- to seven-point scale (Brace, 2004, p.86). The reason why we chose to use a Likert scale is because it is suitable for measuring attitudes which is enshrined in the purpose of our study.

Dillman (2007, p.79) argue that a self-administered questionnaire can be constructed in ways that make them easy to fill and understand. The order and wording of the questions could lead to misinterpretations and even to lower response rates because of aborted questionnaires. It is further argued that grouping the questions by topic is helpful to respondents and makes it easier not to get lost. Ordering the questions from the most salient to the least salient is also important in a self-administered questionnaire. This is because a questionnaire generally consists of a range of questions which some of the respondents will find interesting and some not interesting. Starting the questionnaire with demographic questions should be avoided. Although these demographic questions are important to the study, the respondents may not see an obvious connection of these questions with the topic and putting them near the end of the questionnaire is a better choice. A respondent who has spent five to ten minutes on filling out a questionnaire is more likely not to respond to an objectionable question by quitting, and moreover some questions will appear as less objectionable in the light of the previous questions. To avoid this problem and hopefully get a lower rate of respondents quitting the questionnaire we end the questionnaire with the demographic variables (Dillman 2007, p.87).

In order to get a higher response rate, an introduction letter was sent to the respondents prior to the questionnaire wherein we briefly described the purpose of the study, who we are and how the respondents have been selected for the study. Sending out a well designed cover letter containing the above mentioned is important to increase response rates, especially with a web-based survey (Bryman & Bell, 2005, p.165; and Dillman, 2007, p.159). As the response rate was higher than expected, we decided not to send out a reminder, and instead put more time and focus to analyze the answers we already got.

**4.2.1 Survey materials**

In the questionnaire, the respondents (auditors) had to take a stand as to how they think a series of situations has an impact on auditor independence. The situations are based on the five threats to auditor independence identified in our literature review. To measure the respondents’ attitudes, we use a five point Likert scale ranging from option 1 – “Seriously undermines independence”, to option 5 – “strongly enhances independence”. With having such extremities, we also provide a neutral option, option 3 – “no effect on auditor independence, to not force the respondents into controlled responses. The other options included option 2 – “slightly weakens auditor independence and option 4 –
“slightly enhances auditor independence”. Another reason for using five point Likert scale is that earlier research (Beattie et al. 1999; and Teoh & Lim 1996) which we will borrow much from for this chapter, used the same scale. This makes it possible for us to base some outcomes of the questionnaires with previous research.

In the table below are the factors that in the previous research of Beattie et al. (1999, p.80) and Teoh and Lim (1996, 244) proved influencing the perception of auditor independence. In designing our study, we adapt these factors as indicators for our measures of independence. Based on the methodology in Beattie et al. (1999), we construct the questionnaire; the indicators are further developed and argued for in the next section.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Description</th>
<th>Study</th>
<th>Proxy measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECDEP1</td>
<td>Economic dependence of the auditor on the client</td>
<td>Teoh &amp; Lim (1996)</td>
<td>More than 15 % of total firm revenue from one client</td>
</tr>
<tr>
<td>ECDEP2</td>
<td>Financial interest in client</td>
<td>Beattie et.al (1999)</td>
<td>Unpaid audit fees</td>
</tr>
<tr>
<td>NAS1</td>
<td>Provision of NAS by auditor</td>
<td>Beattie et.al (1999)</td>
<td>NAS by current up to or equal 100 % audit fee</td>
</tr>
<tr>
<td>NAS2</td>
<td></td>
<td></td>
<td>NAS by current up to or equal 25 % audit fee</td>
</tr>
<tr>
<td>ADVTHR1</td>
<td>Auditor acts in bias when advocating for or against the client</td>
<td>Present study</td>
<td>Acting as an advocate for litigation cases or disputes on behalf of the client</td>
</tr>
<tr>
<td>ADVTHR2</td>
<td></td>
<td></td>
<td>Dealing in shares or financial securities of assurance client</td>
</tr>
<tr>
<td>AUDRISK1</td>
<td>Risk to auditor from poor quality audit</td>
<td>Beattie et.al (1999)</td>
<td>Risk of disciplinary action by professional body</td>
</tr>
<tr>
<td>AUDRISK2</td>
<td></td>
<td></td>
<td>Risk of damage to auditors reputation from public scandals</td>
</tr>
<tr>
<td>AUDRISK3</td>
<td></td>
<td></td>
<td>Risk of litigation</td>
</tr>
<tr>
<td>FAMTHR1</td>
<td>Auditor compromise their objectivity as a result of a close relationship</td>
<td>Present study</td>
<td>A family member holds a position in the client</td>
</tr>
<tr>
<td>FAMTHR2</td>
<td></td>
<td></td>
<td>Accepting undue hospitality or gifts or from a client</td>
</tr>
</tbody>
</table>

Table 4: Factors influencing perceived auditor independence, Adopted from Beattie et al. (1999, p.80)

The factor we use for measuring self-interest threat is ECDEP1 and ECDEP2 (questions 1-2 and 13-14) where ECDEP is Economic dependence of the auditor on the client. These factors are both used by Beattie et al. (1999, p.98) and Teoh & Lim (1996, p.237) as a proxy for measuring the economic dependence or financial interest in a client. In addition, Eilifsen et al. (2006, p.580), Hayes et al. (2004, p.89) and the IFAC Handbook (2008) all declare that a self-interest threat appears when the auditor has a “direct financial interest or indirect material financial interest in the client company”. Using these examples in our operational definition of self-interest threats helps us get higher construct validity, i.e. we know that the concepts are reflected in the measures used. To get a single measure of self-interest threats to auditor independence we merge the factors ECDEP1 and ECDEP2 into the new variable TSIthreatsST for short tenures and TSIthreatsLT for extended tenures.
The factors we use to measure self-review threats are the factors NAS1 and NAS2, questions 3-4 for short tenure and 14-15 for extended audit tenure. Beattie et al. (1999) found these factors to be an important threat to the perception of auditor independence, at least on the 50-100% or above the audit fee level. A higher level of NAS implies more involvement for the auditor with the client. The examples of self-review threats in Eilifsen et al. (2006, p.580), Hayes et al. (2004, p.89) and IFAC Handbook (2008) lie on the foundation that it is hard to be critical on one's own work. Although NAS has proven to be a significant factor for the auditor independence, it has not been specifically used as a proxy measure for self-review threats. Nevertheless, we rely on our operational definition of self-review threats and trust it to provide us with a valid measure. To form a single score for self-review threats to auditor independence, we also computed a new variable for short tenure (TSRthreatsST) respectively extended tenure (TSRthreatsLT).

The factor we use to measure advocacy threats (ADVTHR) is derived from the method in Beattie et al. (1999) and Teoh and Lim (1996), i.e., we use a proxy measure as an indicator of advocacy threats (questions 5-6 and 16-17). However, advocacy threats were not a part of their study. To construct these questions, we instead rely on the examples of advocacy threats in Eilifsen et al. (2006, p.580), Hayes et al. (2004, p.89) and IFAC Handbook (2008): “Selling, underwriting or otherwise dealing in financial securities or shares of an assurance client” and “acting as an advocate for litigation cases or disputes on behalf of the auditee (client)”. We argue that using these examples as a measure for advocacy threats provides us with a valid and reliable measure. To form a particular score for advocacy threats to auditor independence we computed a new variable for short tenure (TADVthreatsST) respectively extended tenure (TADVthreatsLT).

The factor we use for measuring familiarity threat (FAMTHR) is also derived from the method in Beattie et al. (1999) in similarity with the factor ADVTHR. To create these questions (10-11 and 21-22), we rely on the definition of familiarity threats to auditor independence in Eilifsen et al. (2006, p.580), Hayes et al. (2004, p.89) and IFAC Handbook (2008): “Accepting undue hospitality or gifts or other forms of preferential treatment from a client” and “a family member holds a position in the client”. To be able to compare the means of short and extended audit tenures, we created the new variables TFAMthreatsST and TFAMthreatsLT, which consist of FAMTHR1 and FAMTHR2 for respective audit tenure length.

Then we asked the respondents what their attitudes towards intimidation threats were and in order to measure intimidation threats to auditor independence (questions 7-9 and 18-20), we use the factor AUDRISK, which is used by Beattie et al. (1999) to measure the effect of audit risk on perceived auditors independence. We also use the definition of intimidation threats in Eilifsen et al. (2006, p.580), Hayes et al. (2004, p.89) and IFAC Handbook (2008): i.e. intimidation threats can emerge if the auditor is “threatened with litigation” or “threatened with dismissal or replacement over a disagreement”. With the questions related to intimidation threats, we also in the same way constructed the new variables; TINTthreatsST and TINTthreatsLT.

After the questions, we provide the respondents a possibility to give comments to their answers or other comments in an open-ended question. Kent (2007, p.156) argue that open-ended questions leave the respondents free to formulate their answers in their own words. With making the above connections with both previous research and literature,
we argue that the validity of our study is enhanced. This is an important quality criterion of research and will be further examined in section 4.6.2.

In the last part of our questionnaire, some background information was required: firm type, years of experience as an auditor and gender. The reasons why we have chosen these background variables are presented below.

The motivation to know whether the respondents work at a Big 4 firm is because previous research shows that there are empirical evidences which generally depict differences between Big 4 and other firms. Becker et.al (1999, p.19) for instance found support for their hypotheses that Big 4 firms provide higher quality audits than other agencies, we argue that this could also affect the auditor independence. Svanström (2008, p.89) argue that in research, it has become generally accepted using Big Four auditors as a proxy for high audit quality. To be able to compare our results with previous studies, we adopt the firm classification from Beattie et.al (1999, p.80); Big Four, non-Big Four international or national firm, regional firm, and local firm.

The motivation why we want to know how many years of experience as an auditor the respondents have, is in line with the reasoning in Boritz (1992, p.22); that for example, in sports and games, skills can be readily determined by reference to tangible evidence of performance (i.e., winning the game). In the auditing profession this does not however seem to be an unequivocal way for evaluating the quality of audit. Performance measures are relatively subjective and context dependent. Since expertise often depends upon specific experiences, the length of tenure in a specific professional position, and other situation-related contingencies, indirect measures such as general experience, task experience, rank, or peer recognition are often used as criteria for identifying who is an expert (Boritz, 1992, p.23). Boritz (1992, p.23) further exemplifies this by saying that “drinking a lot of wine each day will make one drunk, but not necessarily a wine connoisseur”. Similarly and relevant for our study, having a lot of experience as an auditor is not a guarantee for being independent. This is the reason why we chose years of experience of an auditor as a background variable.

The reason why we want to know the respondent’s gender is that it gives us a better picture of our sample. We may also get the possibility to see if there are any differences in the responses between the genders although it is not the purpose of the study.

4.2.2 Data collection
The method for data collection in our study is through a self-administered web-survey. The respondents’ answers are automatically saved online and can further on be downloaded to a spreadsheet which we can copy into the statistics program, SPSS, for analysis. Dillman (2007, p.7) articulate that there are a societal trend towards self-administration; however, the disadvantages with collecting the data from a web-based survey are sample selection coverage biases, lower response rates than postal questionnaire surveys. Negative impacts on response rates due to software and internet security concerns can also be seen as a problem. There are also issues regarding confidentiality and anonymity when collecting data trough a web-based survey. In our study, we let the respondents know prior to administering the questionnaires that their answers will be confidential and their identity anonymous. The respondents do not need to e-mail their answers with their personal e-mail accounts but the answers are saved in a spreadsheet online which we can access. We argue that this is important in getting a higher response rate.
The advantages with using a web-based survey are first and foremost the efficient way of dealing with respondents and also that there are very low costs associated with sending out the questionnaire as oppose to the postal survey. In addition, there is no loss of data quality as the stress with grueling keypunching is eliminated. There is also a significant cultural change occurring which suggests a bright future for self-administered surveys (Dillman, 2007, p.7), and we had this in mind when we chose this method of data collection. We argue in line with Dillman (2007, p.7) that the acceptance of a web-based survey is greater now than some years ago and furthermore a relatively higher response rate can be expected now compared to just some years ago.

4.3 Statistical tools used for analysis of data

To analyze the raw data gathered in our survey, we use SPSS. We argue that a specialized statistics program like SPSS can provide us with more than sufficient tools for analyzing our data. To be able to analyze our data, we had to group the proxy measures that referred to the same concepts into an index. Kent (2007, p.134) calls this method for derived measurement and explains it as; “derived measurement happens when we conceive of a property as consisting of two or more characteristics that are used in combination to create a new measure”. Kent (2007, p. 134) further argue that one of the most commonly used methods for derived measurement is the summated rating scale, i.e. index. This is created by allocating numerical scores to responses for each proxy being measured, and then the scores are totaled for each case and then divided by number of cases to get average score for each measure. Ejlertsson (2005, p.92) also suggests that if there are a group of questions that refers to the same measure they can be merged into an index.

Since most of our questions, except background information and other comments are replied to on a five point Likert scale, this implies that all the means will range from one to five. Kent (2007, p.310) defines a mean as what is commonly known as an average. The mean is calculated by adding all values together and divide by the number of values included. Muijs (2004, p.99) however argue that there could be a problem relying only on a mean. That is, when calculating a mean the value do not actually correspond to any of the answers, it is somewhere in between the response options. Muijs (2004, p.100) insist that the median should be used in addition to the mean. The median is essentially the middle category of a distribution. To get a central tendency of our data, we will therefore use both measures of mean and median. In addition to the measures of central tendencies, we will also look at the standard deviation. Standard deviation is a measure on the extent to which the individual observations cluster around the mean (Muijs, 2004, p. 107).

In the following paragraphs we will further define and discuss the different statistical tools used in our study.

4.3.1 Scale reliability

When measurement is derived from a multi-item scale, some problems regarding measurement error can potentially emerge. Examples of these are that the items of a scale are not internally consistent, and that the scale fails to predict what it was designed to predict. An additional problem could be that a scale do not relate to the theoretical construct which it is related to (Kent, 2007, p.99).

Kent (2007, p.142) says that Cronbach’s coefficient alpha has become the measure of choice among researchers for establishing the reliability of multi-item scales. Cronbach’s alpha takes “the average correlation among items in a summated rating scale and adjust for the number of items” (Kent, 2007, p.142). Reliable scales are defined as ones with high correlation and a relatively larger number of items. The
coefficient varies from zero for no reliability to one for maximum reliability. The commonly used “threshold” for an acceptable Cronbach’s alpha is 0.7 which is often used in literature (although not from Cronbach himself). The value of an acceptable Cronbach’s alpha must be related to the purpose of the research and should be seen as an indication rather than a test to be passed with a fixed value (Kent, 2007, p.144). There is however some problems with using Cronbach’s alpha in our study, this is because Cronbach’s alpha values are quite sensitive to the number of items in the scale (Pallant, 2007, p.95).

Pallant (2007, p.95) remarks that with scales consisting of ten items or less, it is common to find low values (e.g. 0.5) of Cronbach’s alpha. Pallant (2007, p.95) further argue in the same reasoning that a more appropriate method of determining scale reliability is through the mean inter-item correlation between the items in the scale. As our scales contain only two or three different items, this is a more suitable measure for us to use when determining the scale reliability. In the study of Briggs & Cheek (1986, cited in Pallant, 2007, p.95) it is recommended that the optimal range for the inter-item correlation should be between 0.20 and 0.40. See section 4.6.1 for further discussion on scale reliability.

4.3.2 Hypotheses testing

As a main tool for analyzing our data, we use a bivariate analysis, which look at the relationship between two variables. To test our hypotheses, we use the mean values achieved from merging the proxies related to the measures of the threats to auditor independence. Körner and Wahlgren (2005, p.136) state that when testing a hypothesis of a mean, the null hypothesis is always \( H_0: \mu = \mu_0 \). Where \( \mu_0 \) is the hypothetical value we are going to work with. The alternative hypothesis could be one or two-tailed, but Körner and Wahlgren (2005, p.136) say that if there are not well motivated reasons for having a one-tailed test, a two-tailed test should be used. With adopting a two-tailed hypothesis, the hypothesis is written like: \( H_1: \mu \neq \mu_0 \).

We hypothesize that extended audit tenure has an impact on the respective independence threats. As we do not want to assume either a positive or negative relation we use a two-tailed paired-samples t-test as suggested in Pallant (2007, p.239). Our null hypothesis will look like \( H_0: \mu = \mu_0 \), where \( \mu_0 \) is the mean score of a specific threat when there is short audit tenure (less than three years). In addition, the letter \( \mu \) stand for the mean score of a specific threat when there is extended audit tenure (more than nine years). Our alternative hypothesis is then \( H_1: \mu \neq \mu_0 \), meaning that if the mean score from extended audit tenures is not equal to the mean score of short audit tenure there is an impact on auditor independence.

Körner and Wahlgren (2005, p.122) propose that when using a sample of a population to gather data, the information provided is never entirely complete. Because of this, there is always a risk of making the wrong decision based on incomplete information. Körner and Wahlgren (2005, p.122) further identifies two types of risks: the risk to reject the null hypothesis when it is in fact true and the risk to accept (not reject) the null hypothesis when it is false. Muijs (2004, p. 77) classifies this as type I and type II errors. The risk is impossible to eliminate but it must of course be small. In all hypotheses testing, it is up to the researchers to choose how big the risks of rejecting the null hypothesis when it is true, this is called the significance level and is denoted by the Greek letter \( \alpha \) (Körner & Wahlgren, 2005, p.122).
Both Körner and Wahlgren (2005, p.122) and Muijs (2004, p.78) as well as Gorard (2003, p.128) say that the most commonly used value for a cut-off point is five percent (5%). Muijs (2004, p.78) explains the 5% significance level; “this means that the probability that we would find the value we have in our sample if there was no relationship in the population is less than 5 percent. In that case we usually say that our findings are significant”. Based on this discussion, we have chosen a significance level of 5% (0.05) in our study. For instance, if our results reveal a significance level of less than 0.05 then we have a statistical significant relationship. The opposite is true if our results reveal a significance level of more than 0.05. That is relationship is not statistically significant relationship. When choosing a significance level of 0.05, we take a 5% risk of rejecting the null hypothesis when it is true.

Muijs (2004, p.113) identifies two important factors that is interesting when looking at a relationship between two variables: the first one is whether the relationship is statistically significant and the second the strength of the relationship (effect size). To measure whether the relationships between our variables in our study are significant, we will use a t-test as measure. Muijs (2004, p.131) argue that when looking at the difference between the means of a continuous variable, a t-test is used. A t-test is designed to test whether the means of two variables differ. In addition to the t-test, we will also perform a test of the strength of the relationship between audit tenure and the respective threat to auditor independence. One common method for measuring effect size is Cohen’s d (Muijs 2004, p.136). There are some guidelines for determining whether the effect size is strong: if Cohen’s d is under 0.20 it is a weak effect and if it is more than 1 it is a strong effect (Muijs 2004 p.139). Pallant (2007, p.236) suggests using the calculator on the homepage of the University of Colorado at Colorado Springs [UCCS] (2010) to calculate Cohen’s d. Cohen’s d is calculated through the formula Cohen's $d = \frac{M_1 - M_2}{\sigma_{pooled}}$. Where $M$ is the mean score and $\sigma_{pooled}$ is the average standard deviation.

4.4 Analysis of response rates and missing values

The initial expectations for the response rate to our questionnaire were 10-15% and we wanted a sample size of at least 125 respondents. Based on this, we sent out the questionnaires to approximately 1,250 auditors by e-mail; we received a total of 265 responses implying a response rate of 21.2%. Although our actual response rate was higher than our expectations, the response rate is still low.

One of the reasons for the low response rate could be as a result of much workload for the auditors and they do not prioritize answering to a survey. Another reason could be that the e-mail that has the link to the questionnaire is automatically put in the junk-mail folder and is never read. There could also be a fear of computer viruses which may be attached to the e-mails and thus may corrupt the computer system. All these may have accounted for the low response rate. In the table on the next page, the response rates are examined. We can note that 42 respondents could not be reached due to out of office auto replies. The most frequent reasons for this were maternity leaves, vacations and work-related travels.
Table 5: Response rates

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total response rate</strong></td>
<td>265</td>
<td>21.2%</td>
<td>21.2%</td>
</tr>
<tr>
<td>Declines to take part via email</td>
<td>4</td>
<td>0.32%</td>
<td></td>
</tr>
<tr>
<td>Unreachable due to out of office automated response</td>
<td>42</td>
<td>3.36%</td>
<td></td>
</tr>
<tr>
<td>No response</td>
<td>939</td>
<td>75.12%</td>
<td></td>
</tr>
<tr>
<td><strong>Total response failures</strong></td>
<td>985</td>
<td>78.8%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1250</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

In the background variables, we can also note a high number of missing values for experience as an auditor compared to the other two variables, gender and firm size. There are 31 missing values in experience compared to 5 for gender and 2 for firm size. A reason for this could be that it might be hard to keep track of the exact time when the respondents started to work as an auditor and they might have had periods which they did not work as an auditor at all, and as a result not reply to the question. This was evident in one of the responses whereby the respondent merely stated the year he started to work and not a precise number of years.

4.5 Critique of primary sources

In view of the fact that we chose to conduct a self-administered web-survey, there are some concerns that need to be addressed. In consequence, the information provided in the study is relatively limited compared to other research on auditor independence and audit tenure. It is probably difficult to completely understand auditors and their acuity on the impact of audit tenure to auditor independence when using a web-survey. But on the other hand, this was never the purpose of the study; if we wanted to get an in-depth knowledge, a qualitative study would have been a more suitable method. However, the decision of conducting a self-administered web-survey was made due to its convenience in collecting information in a practical, fast and efficient way. In a self-administered web-survey, the respondents may interpret key terms and concepts in a question in different ways. Because of this, we have carefully developed the questionnaire and tested it before distribution.

The questionnaire was first developed in English and later translated into Swedish, as the population in the study is Swedish auditors that are members of FAR. In translating the questionnaire, we risk having translation errors; however, we do argue that this risk is considerably smaller than the risk of the respondents interpreting the questions differently based on their skills in the English language. To minimize the risk of translation errors, we got an external person with good English skills to translate the questionnaire back into English; we can conclude that there were no problems in the translation. Another issue brought to light by Ejlertsson (2005, p.12) is that in a questionnaire, the respondents do not have the possibility to ask further about the questions. Responses that are based on clear misunderstandings can therefore not be corrected. Based on this, we also included an open-ended question that gave the respondents the possibility to further explain any answers or write any other comments. This is however not a fail-safe way to avoid misunderstandings and insecurity among the respondents. This can be illustrated by the comment a respondent left in the open-ended question; “by talking face-to-face we could surmount the insecurity I am feeling now, i.e. it feels like many of my answers are “wrong” because of different interpretations of you and me respectively”. We argue this to be an issue for self-
administered in general but as mentioned before we think that the data collection method was the most suitable method to be able to fulfill the purpose of the study.

4.6 The quality criteria of the research
As we conduct a quantitative study, there is always a risk that the results we get are not completely reliable. The reason why the credibility of the survey is so important is to ensure the generalization of the survey to the whole sampling frame (Bryman & Bell, 2005, p.48). A study that is not implemented properly is unusable because the results do not reflect the survey. One way to ensure the accuracy of the work is to focus on the reliability and validity of the research. (Ejlertsson, 2005, p.99)

4.6.1 Reliability
Reliability describes the extent to which the results from a study will be the same if the study were to be carried out again (Bryman & Bell, 2005, p.48; and Ejlertsson, 2005, p.99). Achieving the same results in the study if it was going to be repeated implies a high reliability. But if we were to get different results in a repeated study with a margin of error, then the study does not have any reliability. Bryman & Bell (2005, p.94) says that an important factor when considering the reliability of a measure, is the internal reliability. The internal reliability aims to explain the risk of using factors that are not related to the same measure, i.e., they lack internal consistency or coherence.

In order to have a high reliability and stability as well as a high response rate in our study, it is important to have an easily understood and well designed, both visual and worded questionnaire. Ejlertsson (2005, p.103) indicate that there are two main methods of assessing reliability; the test-retest method and the assessment of internal consistency. However, time constraints make it impossible for us to repeat the study and assess the reliability; this places additional demands in presenting an easily understood and well formulated questionnaire in order to reduce the respondents’ interpretations of the questions. As described in section 4.3.1 (Scale reliability), we use the mean inter-item correlation to determine the reliability of the scales used in the study and also present the Cronbach’s alpha coefficients for each scale as shown in the table below. It can be seen that it is only TINTthreatsST and TINTthreatsLT that have a sufficient Cronbach’s alpha; this is most likely because these scales are computed based on more questions than the others. This strengthens the discussion by Pallant (2007, p.95) that Cronbach’s alpha is sensitive to the number of items in the scales. The table below summarizes the values for all scales.

<table>
<thead>
<tr>
<th>Scale reliability</th>
<th>Mean inter-item correlation</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSIthreatsST</td>
<td>0.338</td>
<td>0.505</td>
</tr>
<tr>
<td>TSIthreatsLT</td>
<td>0.376</td>
<td>0.546</td>
</tr>
<tr>
<td>TSRthreatsST</td>
<td>0.369</td>
<td>0.539</td>
</tr>
<tr>
<td>TSRthreatsLT</td>
<td>0.561</td>
<td>0.719</td>
</tr>
<tr>
<td>TADVthreatsST</td>
<td>0.365</td>
<td>0.535</td>
</tr>
<tr>
<td>TADVthreatsLT</td>
<td>0.431</td>
<td>0.602</td>
</tr>
<tr>
<td>TFAMthreatsST</td>
<td>0.542</td>
<td>0.703</td>
</tr>
<tr>
<td>TFAMthreatsLT</td>
<td>0.469</td>
<td>0.638</td>
</tr>
<tr>
<td>TINTthreatsST</td>
<td>0.716</td>
<td>0.883</td>
</tr>
<tr>
<td>TINTthreatsLT</td>
<td>0.755</td>
<td>0.902</td>
</tr>
</tbody>
</table>

Table 6: Scale reliability
As mentioned earlier, Briggs and Cheek (1986, cited in Pallant, 2007, p.95) recommended that the optimal range for the inter-item correlation should be between 0.20 and 0.40. As we can see in the table above, four of the scales are in the optimal range; in addition there are also two scales that are just above 0.40. The four remaining scales with a mean inter-item correlation from 0.542 to 0.755 also shows a value of Cronbach’s alpha greater than 0.70. We can hence argue that the reliability of the scales used is sufficient to provide us with reliable measures of the impact of audit tenure on the threats to auditor independence.

4.6.2 Validity
The concept of validity can be considered as a concept that depicts whether an indicator actually measures what it is supposed to measure. Bryman and Bell (2005, p.95) declare there are different ways of determining validity; face validity, concurrent validity, predictive validity, construct validity, and convergent validity. However, Ejlertsson (2005, p.101) point out that the use of validity is different in qualitative and quantitative studies. The type of validity that is suitable for quantitative studies are: criterion-related validity, face validity and construct validity. As this is a quantitative study, we will make use of these three measures of validity.

A question or a group of questions have a high criterion-related validity if there is a strong relationship between the measure in the question and the criteria that it is supposed to measure (Ejlertsson, 2005, p.101). The criterion-related validity can be grouped into two types: concurrent validity and predictive validity. Concurrent validity can be measured when the researcher knows that certain criteria differ and are relevant for the measure (Ejlertsson, 2005, p.101). In our study, this will not be applied since we do not know for sure if certain criteria are different and relevant. This is because of the scattered results from earlier research. This also holds for predictive validity, which is similar to concurrent validity, with the sole difference being that it relies on a future criterion. The criterion-related validity is often not possible to assess because most of the times, it is impossible to set a criteria which the questions are suppose to reflect (Ejlertsson, 2005, p.102). The face validity can be determined by, for example, asking others whether the measure, in their opinion, captures the concept (Bryman & Bell, 2005, p.95). By discussing with external sources in the construction of our study, we aspire to get a face validity that is sufficient. We were able to approach two practicing auditors of two of the Big Four audit firms in Umeå to give us their views about the questionnaire. After their remarks and those from our supervisor, the face validity was enhanced.

According to Bryman and Bell (2005, p.97), construct validity concern the meaning of the concepts reflected in the measures used in the study. This puts a high demand on the operational definition of the concepts presented in our theoretical framework. The questions have to be re-linked to the purpose of the study, and reflect the content of the theoretical framework that lies as the starting point for the study (Ejlertsson, 2005, p.100). The construct validity is probably the most complicated alternative in validity and requires the authors to be very familiar with the theoretical framework in which the questions are founded (Ejlertsson, 2005, p.102). We argue that we have trough earlier studies and the extensive number of articles and books reviewed for the thesis gives us a good knowledge about the area under study. By using some similar pre-existing questions used in earlier research, the validity of our study is enhanced. As we use previous research in our operational definition of concepts and combine this with our knowledge of the area, we argue that our study has a relative high validity.
CHAPTER 5 – EMPIRICAL RESULTS

In this chapter, we present the results from the questionnaires and analyze them through means, medians and standard deviations using paired samples t-tests. We will present the results of respective threats to auditor independence individually and conclude each section with testing our hypotheses. And finally, we will give a summarized result of our hypotheses and contextualize the results with the help of our model (Fig.1).

5.1 Background information

We had a total of 265 respondents, of these, 170 (64.2%) were male and 90 (34%) were female. The missing values in the distribution of gender where 5 cases equaling 1.9% of the total cases.

As we can see in the charts above, there is a clear “overweight” with male respondents, we can also note that auditors working in Big Four (45%) and small local audit firms (35%) covers the majority of the respondents. Regional firms are not well represented in the sample.

5.2 Self-Interest threats

The mean score for self-interest threats in relation to short audit tenure was calculated through the variable TS|threats|ST, which denotes the total score for self-interest threats given short audit tenure. To compute the new variable, we merged the factors ST|EDEP|1 and ST|EDEP|2 in question (Q) 1 and 2 with short tenure (ST) into a single index. In a similar way, we calculated the mean for extended audit tenures and self-
interest threats with the variable TSIthreatsLT; here we used the factors LTECDEP1 and LTECDEP2 in Q.13 and 14 given extended audit tenure (LT) to compute the mean score.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
<th>N</th>
<th>Std.Error Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSIthreatsST</td>
<td>2.768</td>
<td>3</td>
<td>256</td>
<td>.042</td>
<td>.664</td>
</tr>
<tr>
<td>TSIthreatsLT</td>
<td>2.664</td>
<td>2.5</td>
<td>256</td>
<td>.040</td>
<td>.640</td>
</tr>
</tbody>
</table>

Table 7: Paired sample statistics for self-interest threats

As presented in the table, the means do not deviate much from each other and the mean score for self-interest threats with extended audit tenure is slightly lower with 2.664 compared to short audit tenure with a mean of 2.768. The standard deviation for the variables is 0.664 for short audit tenure and 0.640 for extended audit tenures. We can also see that the median for short audit tenure is 3 compared to 2.5 for extended audit tenure.

A paired-samples t-test was conducted to evaluate whether there is an impact of extended audit tenure on self-interest threats to auditor independence. The results are presented in the table below.

<table>
<thead>
<tr>
<th>TSIthreatsST</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>Lower</th>
<th>Upper</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSIthreatsLT</td>
<td>.104</td>
<td>.516</td>
<td>.032</td>
<td>.040</td>
<td>.167</td>
<td>3.207</td>
<td>255</td>
<td>.002</td>
</tr>
</tbody>
</table>

Table 8: Paired samples t-test for self-interest threats

In the literature review, we hypothesized that extended audit tenures have an impact on self-interest threats which in turn affects auditor independence. Using a paired sample t-test, the test reveals a statistical significant difference. As we can see in the final column labeled Sig. (2-tailed) the probability value of self-interest threat is lower than our significance level ($\alpha=0.05$). There is hence a statistically significant difference between the impact of audit tenure on self-interest threats to auditor independence; $t (255) = 3.207$. The mean decrease in self-interest threat was 0.104 with a 95% confidence interval ranging from 0.04 to 0.167. Although the results presented shows that the difference obtained in the two sets of scores was unlikely to occur by chance, it does not reveal much about the magnitude of the effect that extended audit tenure have. This is the reason why we calculate Cohen’s d which measures the effect size. A Cohen’s d of 0.159 was acknowledged for our sample and this indicates a weak effect. Based on our paired-samples t-test, we can accept hypothesis one (H1) as true. However, the effect size discloses that the strength of the relationship is weak so we have to be cautious with our conclusions.

5.3 Self-review threats
Q.3, 4, 14 and 15 were based on the provision of other services (non-audit services) by the auditors to their client. These questions are closely connected to self-review threats in that the auditors during the audit process may have to check upon a system they either help or actively participated in structuring. Majority of the answers given by the
respondents appeared to be quite similar for all cases – mostly bordering on option 3 on our 5 point Likert scale. Using a paired sample statistics technique, our variables involved TSRthreatsST which measure the total score of self-review threat to auditor independence when short audit tenures are involved. And TSRthreatsLT, which measure the total score of self-review threat to auditor independence when extended audit tenures are involved. That is, TSRthreatsST add up the scores of STNAS1 and STNAS2. In the same way, TSRthreatsLT also add up the scores of LTNAS1 and LTNAS2. We then use these two new variables, TSRthreatsST and TSRthreatsLT, to compute the mean and median as shown in the table below.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
<th>N</th>
<th>Std. Error Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSRthreatsST</td>
<td>2.838</td>
<td>3</td>
<td>253</td>
<td>.042</td>
<td>.662</td>
</tr>
<tr>
<td>TSRthreatsLT</td>
<td>2.745</td>
<td>3</td>
<td>253</td>
<td>.043</td>
<td>.688</td>
</tr>
</tbody>
</table>

Table 9: Paired Sample Statistics for self-review threats

As the above table shows, by means of paired samples statistics, the mean values for TSRthreatsST and TSRthreatsLT are 2.838 and 2.745 respectively indicating a slightly lower value for extended audit tenure. Also, the standard deviation for short audit tenure is 0.662 and extended audit tenure is 0.688, indicating a slightly higher value for extended audit tenures.

We hypothesized in chapter 3 that is H2, that extended audit tenures have an impact on self-review threats that affects auditor independence. Using paired samples t-test; the test results reveal a statistical significant difference but do not reveal the extent of the impact of extended audit tenures on auditor independence. Nevertheless, as shown by the last column in the table below, Sig. (2 tailed), the significance level is 0.002 as compared to our set significance level of 0.05. With the actual significance level been less than the set level, this portray a significant statistical difference between the impact of extended audit tenure on self-review threats to auditor independence; t (252) = 3.175. With a confidence interval of 95% ranging from 0.035 to 0.151, the mean decrease was 0.093. The assertions made thus far, can be supported by the figures in the table below.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>Lower</th>
<th>Upper</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSRthreatsST</td>
<td>.093</td>
<td>.465</td>
<td>.029</td>
<td>.035</td>
<td>.151</td>
<td>3.175</td>
<td>252</td>
<td>.002</td>
</tr>
<tr>
<td>TSRthreatsLT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 10: Paired Samples Test for self-review threats

Though the above results do not tell us much about the magnitude of the effect that extended audit tenures have on auditor independence, using the Cohen’s d model, we get a Cohen’s d of 0.137. Since this value is under 0.2, this indicates a weak effect. Hence we accept H2 on the basis of the results implying that auditor independence is impacted when they have extended audit tenures especially when confronted with self-review threats.
Chapter Five – Empirical results

5.4 Advocacy threats
The mean score for advocacy threats in combination with short audit tenure was calculated through the variable TADVthreatsST, which denotes the total score for advocacy threats given short audit tenure. To compute the new variable we merged the factors STADVTHR1 (Q.5) and STADVTHR2 (Q.6). In a similar way, we calculated the mean for extended audit tenures and advocacy threats with the variable TADVthreatsLT, here we used the factors LTADVTHR1 (Q.16) and LTADVTHR2 (Q.17) given extended audit tenure to compute the mean score and standard deviation as shown in the table below.

Paired Sample Statistics for advocacy threats

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
<th>N</th>
<th>Std.Error Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>TADVthreatsST</td>
<td>1.617</td>
<td>1.5</td>
<td>249</td>
<td>.044</td>
<td>.690</td>
</tr>
<tr>
<td>TADVthreatsLT</td>
<td>1.631</td>
<td>1.5</td>
<td>249</td>
<td>.044</td>
<td>.691</td>
</tr>
</tbody>
</table>

Table 11: Paired Samples Statistics for advocacy threats

From the table, the mean for TADVthreatsST and TADVthreatsLT is 1.617 and 1.631 respectively. Considering each score and the mean as well as the number of respondents for Q.5, 6, 16 and 17, the standard deviation for TADVthreatST and TADVthreatLT is 0.690 and 0.691, allowing for standard error mean of 0.044 respectively.

Our third hypothesis (H3) considered whether extended audit tenures had an impact on advocacy threat that affects auditor independence. H3 will be rejected based on the results of our findings. Applying the paired samples t-test, the results do not show a statistical significant difference as can be seen from the table below. This is implied in Sig. (2-tailed) with a value of 0.589 as oppose to our set significance level of 0.05, with the actual significance level been greater than our set significance level. With a 95% confidence interval, and -0.065 and -0.004 as lower and upper values, the mean difference was -0.014 resulting to a standard deviation of 0.410.

Paired Samples Test for advocacy threats

<table>
<thead>
<tr>
<th></th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>Lower</th>
<th>Upper</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TADVthreatsST</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TADVthreatsLT</td>
<td>-.014</td>
<td>.410</td>
<td>-.065</td>
<td>-.004</td>
<td>-.541</td>
<td>248</td>
<td>.589</td>
</tr>
</tbody>
</table>

Table 12: Paired Samples Test for advocacy threats

Therefore, with t (249) = -0.541, we state that there is not a significant difference between the impact of extended audit tenure on advocacy threats that affects auditor independence. The effect size for advocacy threats was also -0.020; this implies a weak effect size since it is under 0.2. Hence, we emphatically affirm that H3 is rejected.

5.5 Familiarity threats
In order to assess the impact of short and extended audit tenures on familiarity threats, we computed the variables TFAMthreatsST and TFAMthreatsLT which measures the total score for familiarity threats to auditor independence for both short and extended audit tenures. That is, TFAMthreatsST measures the total score of self-review threats on short audit tenure implying an addition of STFAMTHR1 and STFAMTHR2 (Q.10 and
11). Similarly, TFAMthreatsLT measures the total score of self-review threats on extended (long) audit tenure, implying an addition of LTFAMTHR1 and LTFAMTHR2 (Q.21 and 22).

<table>
<thead>
<tr>
<th>Paired Sample Statistics for familiarity threats</th>
<th>Mean</th>
<th>Median</th>
<th>N</th>
<th>Std.Error Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFAMthreatsST</td>
<td>1.557</td>
<td>1.5</td>
<td>237</td>
<td>0.046</td>
<td>0.704</td>
</tr>
<tr>
<td>TFAMthreatsLT</td>
<td>1.568</td>
<td>1.5</td>
<td>237</td>
<td>0.045</td>
<td>0.689</td>
</tr>
</tbody>
</table>

Table 13: Paired Sample Statistics for familiarity threats

The mean scores for total familiarity threats to auditor independence do not vary in a substantial way. The mean for short audit tenures was 1.557 compared to 1.568 for extended audit tenures. The median score for both is 1.5, suggesting no difference between extended and short audit tenure. In the table, we can also see a standard deviation of 0.704 for short audit tenure and 0.689 for extended audit tenure. We conducted a paired-samples t-test to evaluate whether there is an impact of extended audit tenure on familiarity threats to auditor independence. The results are presented in the table below.

<table>
<thead>
<tr>
<th>Paired Samples Test for familiarity threats</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFAMthreatsST</td>
<td>Mean</td>
</tr>
<tr>
<td>TFAMthreatsLT</td>
<td>Mean</td>
</tr>
<tr>
<td></td>
<td>-0.011</td>
</tr>
</tbody>
</table>

Table 14: Paired Samples Test for familiarity threats

Shown in the table above, it can be seen that the probability value (0.605) is to a greater extent higher than our significance level of 0.05. We can consequently draw the conclusion that there is not a statistically significant difference of the impact of short and extended tenures on intimidation threats to auditor independence; t (236) = -0.518. The mean was also slightly increased with extended audit tenure by 0.011 with a 95% confidence interval ranging from -0.051 to 0.030. The effect size for familiarity threats using Cohen’s d is -0.016; this also implies a weak effect size since it is under the cut-off point of 0.2. Based on the above results we hence reject our fourth hypothesis (H4) that extended audit tenures does not have an impact on familiarity threat that affects the auditor independence.

5.6 Intimidation threats
The mean score for intimidation threats to auditor independence given short audit tenure was calculated through the variable TINTthreatsST. The factors STAUDRISK1, STAUDRISK2, and, STAUDRISK 3 (Q.7-9) were combined to form a total score and a single index for intimidation threats for short audit tenures. In the same way, we calculated the mean for intimidation threats in extended audit tenures with the variable INTthreatsLT. INTthreatsLT was derived after merging LTAUDRISK1, LTAUDRISK2, and, LTAUDRISK3 (Q.18-20).
Chapter Five – Empirical results

Paired Sample Statistics for intimidation threats

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
<th>N</th>
<th>Std.Error Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>TINTthreatsST</td>
<td>2.766</td>
<td>3</td>
<td>248</td>
<td>0.062</td>
<td>0.984</td>
</tr>
<tr>
<td>TINTthreatsLT</td>
<td>2.700</td>
<td>3</td>
<td>248</td>
<td>0.061</td>
<td>0.961</td>
</tr>
</tbody>
</table>

Table 15: Paired Sample Statistics for intimidation threats

The mean scores for total intimidation threats do not differ in a substantial way. The mean for short audit tenures was 2.766 compared to 2.700 for extended audit tenures. The median score for both is 3, suggesting no difference between extended and short audit tenure. In the table, we can also see the highest standard deviation among the respondents, 0.984 for short audit tenure and 0.961 for long audit tenure. The standard deviation suggests a non-conform view of intimidation threats among the respondents. We also in this case conducted a paired-samples t-test to evaluate whether there is an impact of extended audit tenure on intimidation threats to auditor independence. The results are presented in the table below.

Paired Samples Test for intimidation threats

<table>
<thead>
<tr>
<th></th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>Lower</th>
<th>Upper</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TINTthreatsST</td>
<td>.066</td>
<td>.450</td>
<td>.029</td>
<td>.010</td>
<td>.122</td>
<td>2.307</td>
<td>.022</td>
</tr>
<tr>
<td>TINTthreatsLT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 16: Paired Samples Test for intimidation threats

Shown in the table above we can see that the probability value (0.022) is somewhat lower than our significance level of 0.05. We can therefore say that there is a statistically significant difference of the impact of short and extended audit tenures on intimidation threats to auditor independence; t (247) =2.307. The mean was slightly decreased with extended audit tenure by 0.066 with a 95% confidence interval ranging from 0.010 to 0.122. The effect size for intimidation threats was 0.0679; this implies a weak effect size since it is under 0.2. The test effect size shows that the relationship is weak. We hence accept H5 as true though we must have in mind that the relationship is not strong.

5.7 Summary of hypothesis testing

In our literature review, we presented six hypotheses that extended audit tenure would have an impact on the threats to auditor independence and hence on the auditor independence in reality. The table on the next page summarizes the test of the hypotheses conducted in the data analysis.
Chapter Five – Empirical results

Table 17: Summary of hypotheses testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Description</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Extended audit tenures have an impact on self-interest threat that affects auditor independence.</td>
<td>Accepted*</td>
</tr>
<tr>
<td>H2</td>
<td>Extended audit tenures have an impact on self-review threat that affects the auditor independence.</td>
<td>Accepted*</td>
</tr>
<tr>
<td>H3</td>
<td>Extended audit tenures have an impact on advocacy threat that affects the auditor independence.</td>
<td>Rejected</td>
</tr>
<tr>
<td>H4</td>
<td>Extended audit tenures have an impact on familiarity threat that affects the auditor independence.</td>
<td>Rejected</td>
</tr>
<tr>
<td>H5</td>
<td>Extended audit tenures have an impact on intimidation threat that affects the auditor independence.</td>
<td>Accepted*</td>
</tr>
<tr>
<td>H6</td>
<td>Extended audit tenures do not impair on auditors independence on the basis of any type of threats to independence.</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

*significant on a 0.05 level

Recapping Fig. 1 presented in chapter 3, we expressed that extended audit tenures may either be or may not be a source for the emergence of threats to auditor independence which may impact auditor independence. From the presentation of these results, and the summary of the hypothesis in Table 15, it can be seen that extended audit tenures could be considered as a source of self-interest, self-review and intimidation threats which impacts auditor independence. The reasons for this are diverse based on the situation and the personal integrity of the auditor as some of the general comments indicate. Deducing from that, though the safeguards exist by means of the principle based model for independence (analysmodellen); sometimes, it may not be fully utilized by all the auditors when they have extended audit tenures since they may not see the need for carrying out any analysis of their independence for an existing client thereby causing the emergence of these threats. But on the other hand, extended audit tenures on the basis of our results could not be considered as a source of advocacy and familiarity threats. From our findings, we discovered that safeguards that exist for advocacy and familiarity threats are strictly implemented and adhered to by a majority of the auditors in our sample. The above discussion can then be transformed in to a new figure as shown below:

![Figure 6: Review of model for hypotheses](image)

Figure 6 above simply concentrates on the threats to independence that affects auditor independence when they have extended audit tenures. The figure shows that extended audit tenure serve as a source for the emergence of self-interest, self-review and intimidation threats which intend impact the auditor independence.
CHAPTER 6– ANALYSIS

In this chapter, in the following order, we highlight our empirical results linking them to our epistemological assumption and our hypotheses. We also identify strengthening and weakening factors we felt must have influenced interpretations. Finally, we link the results of our findings to prior researches mentioned in the literature review section.

6.1 Analysis of self-interest threats

Our results show a significant statistical difference between short audit tenures and extended audit tenures when the auditor independence is considered under the influence of self-interest threats. Since a difference exists, this gives us the leeway to accept the hypothesis that characterizes self-interest threats. This is highlighted by the responses in the questions related to this threat. This assertion re-echoes our epistemological position since most of the auditors could not clearly separate or relate extended audit tenures to auditor independence when self-interest threats are involved. Though we accept the hypothesis, H1, self-interest threats can impact auditor independence when they are faced with both short and extended audit tenures as revealed by our results. This implies that it is relatively difficult to establish that extended audit tenures may cause the emergence of self interest threats which in turn impair auditor independence. In other words, the relationship of the findings and theory does not shed light for a causal relationship. In spite of this, our results show that there is an association of auditor independence to extended audit tenure when auditors are confronted with self interest threats.

As we noted earlier, our empirical results do not reveal the strength of the difference on the auditor independence between short and extended audit tenure vis-à-vis self-interest threats. The most probable causes are that, first; the questions relating to this threat can be viewed from varied dimensions. For instance, if we consider Q.1, a client may generate 15% of the auditor revenue but may still not influence the auditor decision making process since the auditor may have other clients who also generate significant revenues, thereby guaranteeing that even if the auditor walks out of such a client, they may still remain in business and stay marginally profitable. Secondly, our Likert scale does not provide enough options for the respondents to show or give more apparent and discrepant views. However, as a strengthening factor, option 3 on the scale gives the respondents the possibility to remain indifferent as to the effect on their independence when they are faced with self-interest threats with respect to short and extended audit tenures.

The results from our empirical findings relating to self-interest threats for short and extended audit tenures reveal an impact to auditor independence. Although our paired samples t-test results do not however reveal the magnitude of the impact of extended audit tenure on auditor independence with respect to self interest threat, our findings are consistent to our first hypothesis and to the literature by Beattie et al. (1999). Beattie et al. (1999) indicate that economic dependence on the client by the auditor is seen to be a serious threat to auditor independence. Though this literature consider audit firm size rather than individual auditors, and also does not recognize audit tenure, we think that on the basis of auditor independence which is the central piece of both studies, our result is consistent with theirs.
Chapter Six – Analysis

6.2 Analysis of self-review threats
The main purpose of questions 3, 4, 14 and 15 was to identify whether self-review threats in the form of provision of advisory services (a form of NAS) to the client impair the auditor independence in case of a short or extended audit tenure. Our results indicate a statistically significant difference to the auditor independence in situations of short or extended audit tenures when confronted with self-review threats. Though the extent of the difference is not revealed by our data, at least, it signals an indication for us to accept our hypothesis. Based on the responses to the questionnaire, the provision of advisory services has made the respondents to have varied views which they relate to the circumstances in which they are (were) involved in. This signify that the threats posed by advisory services to auditor independence especially when they earn revenues in either short or extended audit tenures, is real and subjected to the circumstances faced by the auditors. Accepting our hypothesis denotes that self-review threats impact auditor independence in cases of short or extended audit tenures. But our results do not give any clear indication of the emergence of self-review threats from the auditors having extended audit tenures which can impair auditor independence. Rather, the results are somewhat distributed evenly between short and extended audit tenures. Without affirming that extended audit tenures are a source of self-review threats, however, the results show an association of the auditor independence to extended audit tenures when self-review threats are involved.

The possible reasons for our findings not revealing the extent of the statistical significant difference may be as a result of the percentages of revenues earned (see appendix) we indicated in the questions relating to this threat. These percentages might have been misleading in terms of the option to consider in our scale especially when the respondents considered the type and size of the client. Nonetheless, leaving these questions open without indicating a guide (i.e. percentages of fees earned) may have resulted to unguided and vague responses or worst still, no response when considering our scale thereby making the analysis even more difficult. Also, the wording of our questions might have not been very clear to the respondents. This is because advising roles could be at different levels in the client, for instance, at the management level, that is management advisory services. This may have caused the respondents to not know which advisory services to relate to when answering the questions. The raison d'être behind considering just advisory services instead of specifying a single type was because we thought that no matter the level which the auditor give the advise, this could equally be significant to their independence. Hence, we decided to make a generalization which resulted to advisory services as used in the questions.

That notwithstanding, the result of our findings is consistent with that of Canning and Gwilliam (1999) which found that there is a perceived reduction in auditor independence when NAS are provided to the audit clients by audit personnel. Though our consideration of NAS is limited only to advising and that of Canning and Gwilliam (1999) consider other NAS as well as consulting services, however, advising services also constituted an integral part of NAS in the study of Canning and Gwilliam (1999). Therefore, relating our findings to that of Canning and Gwilliam (1999) does not by any chance subject the relationship of both studies to any misjudgments. This because the study Canning and Gwilliam (1999) considered NAS and auditor independence, with auditor independence been the center of attraction and this enables us to easily relate the results of their findings to ours.
Chapter Six – Analysis

6.3 Analysis of advocacy threats
As identified by Eilifisen et al. (2006, p.580), acting as an advocate for litigation cases or disputes on behalf of the client, and selling or underwriting shares of a client threatens the auditor independence. We link these situations to short and extended audit tenures as evident in the related questions (see appendix). Our findings do not prove any significant statistical difference to the auditor independence in either short or extended audit tenures. But the marginal difference shown by our results provides us with the answer to reject the hypothesis related to this threat. It is a real possibility that the auditors may act in bias when they seek to promote or advocate for or against their clients. On the other hand, promoting or advocating for or against the clients very much like the previous threats, depend on the situation presented to the auditors.

However, it is difficult to develop more on the analysis because we could not readily find any published articles to better motivate our views on this threat. Consequently, our analysis for this threat becomes very shallow. Also, we found out that by virtue of the laws regulating auditing practices in Sweden as stated by some respondents in our sample, it is considered illegal for Swedish auditors to either promote or advocate for or against the client under any circumstance.

6.4 Analysis of familiarity threats
In the results achieved on the influence of extended audit tenure to familiarity threats, we can see that there is no big difference between short and extended audit tenures. Our results show that there is not a statistical significant difference between the perceptions of familiarity threats with respect to audit tenure. We can also note that familiarity and advocacy threats had the lowest median and mean scores, e.g. were perceived to undermine an auditor’s independence to a great extent.

Because we do not have a statistical significance between the impact of short and extended audit tenure, the hypothesis that relates to familiarity threats is rejected. The fact that the difference is only marginal and that the strength of the relationship is weak, strengthens this claim. In the comments to the open-ended question we can also see that there is not a uniform view among the respondents to this issue. One respondent say that “Extended audit tenures will probably mean that independence is impaired because of the risk of personal relationship may have arisen”. While another respondent state that “I do not think that audit tenure is important for the independence”. As we can see in the comments and in our results; the audit tenure on its own does not have a substantial impact on familiarity threats. However, familiarity threats in combination with advocacy threats are perceived to be the prime threats to auditor independence by the respondents.

We cannot compare our results on the impact of audit tenure on familiarity threats to previous research due to the fact that we constructed the scale ourselves. We can however connect it to the literature put to light in our literature review. As we noted in the results that familiarity threats is not affected by audit tenure, this is in line with the results in Knechel and Vanstraelen (2007), and Carcello and Nagy (2004) among others, suggesting that audit tenures in themselves are not detrimental. Additionally we can also relate the results to the safeguards of the independence threats. We had several comments that the familiarity threats presented in the questionnaire are in fact contradicting the ethical standards that govern the auditing profession. This implies that the safeguards created are in fact effective and that the auditors are following the standards set out. But on the other hand, it is never this straightforward; it is hard to
control the integrity among each and everyone in the auditing profession, though most of the auditors presumably have high integrity, we cannot for sure know that all auditors act in accordance with the ethical standards.

6.5 Analysis of intimidation threats

The result for the mean scores in this case is similar to the other cases and does not differ much between short and extended audit tenure. Although the difference is small there is in fact a difference that proved significant in the paired samples t-test. But with a very low effect size, the relationship is weak and we should not take any hasty judgments based on the results although they proved significant.

Notably, the intimidation threats have the largest standard deviation among the threats, indifferent of audit tenure. This suggests that there is not a clear-cut way in which intimidation threats are viewed. The respondents do not agree in the way they perceive intimidation threats, irrespective of short or extended audit tenures. This implies that it is somewhat difficult to verify a relationship between audit tenures and the appearance of intimidation threats to auditor independence. One possible reason why the standard deviation for intimidation threats is significantly higher than for the other threats is that the questions relating to the concept possibly could be viewed in different ways. In the questions used, we described a situation where a client threatens the auditor with litigation. There are two possible views that the respondent could take in this situation. The first view can be portrayed by a comment from one of the respondents; “a threat of litigation, is rather strengthening the auditors independence since the independence is brought to an extreme, one have more to lose not being independent”. The other view is then the opposite; that the intimidation threats influence the auditor give in to the wishes of the client.

It is hard to say in which way the questions was viewed but we can infer that there is a low level of agreement among the respondents as shown in the high value of standard deviation around the mean. The fact that intimidation threats could be seen in different ways is consistent with the findings in Beattie et al. (1999) where the similar situations also had notably higher standard deviation than other factors.

6.5 Analysis of open ended questions

In total, we received approximately one hundred comments for the open ended question. The fact that we have a hundred unique opinions makes it impossible for us to account for each and every one of them. In an analytical perspective, the open ended comments have aided us in interpreting our results in a fruitful manner. Although we could not get a comprehensive overview of the comments, we can see some clear tendencies in the comments.

A big portion of these comments were connected to the notion that extended audit tenure does not have an impact on auditor independence. One example is that a respondent answers that “I do not think that audit tenure is so important for auditor independence”. This further strengthens our results that there are no strong relationships between audit tenure and perceived impact on audit tenure. At the same time, it weakens the threats which proved a significant difference between short and extended audit tenure. The other main portion of comments was related to the principle based model for independence and the ethics surrounding it. One respondent state that “In my view, the principle based model for independence help the auditor to maintain his or her independence, irrespective of short or extended audit tenure”. This implies that it is not
perceived by the auditors themselves that audit tenure has an impact on auditor independence and also that the safeguards are effective as discussed earlier. In close relationship to the comments is the principle based model for independence, we can also see that the ethical perspective is brought forward by many respondents. Regarding the ethical perspective, we can see that advocacy threats are perceived by the auditor themselves to be the threat that could have the most impact on independence.

6.7 Summary of the analysis
As presented earlier in this chapter, the impact of extended audit tenures on the respective threats to auditor independence does not prove a strong relationship. Nevertheless, we achieved significant results for self-interest, self-review and intimidation threats which enable us to accept the respective hypotheses. We however think that it should be highlighted that statistical significance is not the same as practical importance. Considering that none of the threats showed any strong relationship with the impact of extended audit tenures, our results are in line with earlier research on audit tenure. The results from Knechel and Vanstraelen (2007), Carcello and Nagy (2004), Myers et al. (2003), Geiger and Raghunandan (2002) and Johnson et al. (2002) all have shown that extended audit tenures in themselves are not detrimental.

When reviewing the comments left in the open-ended question, we could also see that a majority of the auditors do not think that auditor independence is affected by extended audit tenures. As one of the respondent’s states, “the length of the audit tenure does not have an impact on independence”, we could also see many similar comments; this suggests that the auditors themselves do not see any independence issues with extended audit tenures. The view of extended audit tenure are however not uniform; this can be shown in the earlier research of Arruñada and Paz-Ares (1997, p.45) that suggested that the auditor’s work with a client can become routine and not be performed in a high-quality manner when the audit tenure is extended. Although the view of Arruñada and Paz-Ares (1997) represents an opposite view of the impact of extended audit tenure we can conclude that the majority of the respondents that left a comment did not believe that audit tenure has an impact on auditor independence due to the safeguards created to deal with independence.

If we look at the background information variables such as gender, firm-size and experience, no statistical significant differences can be identified. We cannot see any notable differences in mean scores between auditors with short and long experience in the profession. This also holds for the differences in mean scores between male and females and irrespective of firm size. We argue this strengthens the stature of the auditing profession. The majority of the auditors, at least in our study, seem to be very conscious about their independence, irrespectively of gender, age, and firm-size. This can serve as an indicator that the safeguards put in place to protect the independence of auditors are working in an efficient way.
CHAPTER SEVEN – CONCLUSIONS, RECOMMENDATIONS, SUGGESTION FOR FURTHER RESEARCH AND LIMITATIONS

The aim of this chapter is to give a general summary of our analysis through discussions and make broad conclusions drawn from the findings of our results. Also, we will make policy recommendations; depict grey areas that could be interesting for future research as well as highlight some limitations that may have pegged back this research.

7.1 Conclusions

When we envisioned our topic, the question that came to our minds that this thesis sought to answer was: is there an association of auditor independence to extended audit tenures. Been too broad a question to, we decided to narrow down the question to have a main purpose. The main purpose was geared towards finding out whether auditor independence can be impaired when they have extended audit tenures. Then, we decided to use the threats to auditor independence in order to appraise the impairment of auditor independence considering extended audit tenures as a source of the increase likelihood of more threats to independence.

However, the results of our findings indicated an association of auditor independence to extended audit tenures. Though the statistical results showed that there is an impact on auditor independence when they have extended audit tenures and faced with threats to auditor independence except in cases of advocacy threats which remained inconclusive because the regulations in Sweden consider any act of advocacy as illegal; it did not provide us with the opportunity to firmly conclude, on the basis of our main purpose that the auditor independence is impaired when they have extended audit tenures. As regards the sub-purpose, from our results, we conclude that both extended audit tenures and short audit tenures can be a source for the emergence of threats to auditor independence with the risk even higher when auditors have short audit tenures. Though some of the threats may increase with extended audit tenures, others are not affected by the length of tenure as our results have shown. The reasons for this may surely rest on the safeguards that are put in place.

As mentioned in an earlier chapter, when there are safeguards to threats to independence, it may not necessarily guarantee that the auditor independence is free from the damage of threats. These safeguards will require that the auditors strictly follow them to ensure that their independence which is their core value is unperturbed. Having extended audit tenures should not by any means prevent the auditors from analyzing their independence from time to time. This will mean that as the audit tenure increases and the business environment of the client changes; new challenges emerge which may warrant the auditors to adjust and fine-tune their skills and consider issues that may put their independence into question thereby ensuring that they re-evaluate or re–analyze their independence. In the Swedish scenario, using principle based model for independence (analysmodellen), the auditors at the beginning of every New Year should be able to analyze their independence and confirm for themselves if really they are worthy enough to still carry on the audits for the client after an extended period with the current safeguards they have in place. If the analyses show that their independence may be impaired, then the auditors could either consider having some extra safeguards or they may reconsider their position as the client’s auditor.

Nonetheless, the practical situations on the ground may not be as easy as the literatures stipulate and this may require the auditors to have other considerations. This will mean
that the issues of independence and extended audit tenures may not be relevant to some auditors and to others it may be relevant. Whatever the case, being independent will benefit the auditor as it increases their reputation which may also result in an increase in the reputation of the general professional auditing bodies in which the auditors belong. The stakeholders may also benefit from a quality audit judging from the objectivity of the auditors that arises from their independence. This implies an increase in the stock of a single auditor’s reputation may have a direct impact on the reputation of the entire association. Likewise, a loss in the independence of a single auditor may have a boomerang effect in the auditor’s association and the way the general public perceive the profession. Therefore, it is the combined responsibility of the auditors, their professional bodies as well as the regulatory bodies to ensure that the auditors remain independent of their client when they have extended audit tenures as the loss of independence affects the general stakeholders.

7.2 Recommendations
In the introductory chapter we argued that from a practical perspective, the auditor independence is of interest for many different stakeholders. When our study used perceptions of auditor independence, we believe that the results of our study could be practical to stakeholders who rely on the objectivity of the audit reports. The results of this study could maybe indicate that users of audit reports can feel more confident regarding auditor independence even when they have extended audit tenures. The area under study is an important subject not only to the auditors themselves. As shown in the results, the protection of the auditor independence seems to work quite effectively. However, due to the ambiguous results from previous research the auditor should be updated with not only happenings in the practical field in their area of influence but also reading research articles that touch the audit profession in general.

From a regulatory view-point, the present principle based model for independence (analysmodellen) could constantly be reviewed and improved upon as new economic challenges arise so that the auditors can be kept informed with these new challenges thereby preserving their independence and thus, the integrity of FAR. The answers to the open ended question indicate that the safeguards put in place to protect auditor independence are working in an efficient manner. This could serve as an assurance for legislators and regulatory bodies that the efforts they continuously make have a clear impact on the auditors themselves.

7.3 Suggestions for further Research
During our search for literature, and the compilation and analysis of our data, we realized other areas that could be suitable for further research. Firstly, this study could be replicated by considering audit firm sizes. It would be interesting to know if the challenges faced by small local and regional firms are the similar, less or more as compared to Big Four or other big national firms. Secondly, future studies may decide to consider the client size. Like some of the respondents noted, the scenarios we presented in the questionnaires of this study may just depend on the type of business. Since in Sweden most businesses are family owned with either CEOs or CFOs been family members, it could interesting to see how the issue of independence is affected when auditors have extended audit tenures in either medium or large family run businesses. Another area that could be possibly explored is to consider how extended audit tenures can affect female auditors as compared to their male counter parts. Though our study did not depict any significant statistical differences between male and female auditors, but the responses we got from both genders, although similar in some cases, in
others, there were really some surprising differences. Therefore, it could be interesting to find out what the differences between the genders are when independence extended tenures issues are involved.

7.4 Limitations of the research
Though there could be other limitations of this research based on who is reading this work, however, we identified two main issues:

- From the comments we had from some respondents, which we later found that it may have been justifiable, the options we had for the Likert scale may not have been the best. May be if we had options like agree or disagree or not include significantly enhances independence as in our scale, this may have minimized the missing responses for some of the questions.

- Also, having just five options in the scale may have prompted some of the respondents to answer in a certain similar manner thereby affecting our results. Had it been we had at least seven options; this may not have been the case.
REFERENCES

Articles and Books


References


References


Laws and regulations

FAR (2008), Samlingsvolymen, FAR förlag AB, Stockholm.


Websites and e-books


References

FAR homepage (2010) Nytt utseende ska fånga kunderna,
<http://www.far.se/portal/page?_pageid=114,345813&_dad=portal&_schema=PORTAL>
[Retrieved 2010-04-21].

[Retrieved 2010-02-24].

The Free Library (2010). Whither the public accounting as a profession: historical
lessons of auditor independence in the U.S.
<http://www.thefreelibrary.com/Whither+the+public+accounting+as+a+profession:+historical+lessons+of...-a0192852610>
[Retrieved 2010-05-19].

University of Colorado at Colorado Springs (1999) Effect Size Calculators,
<http://www.uccs.edu/~faculty/lbecker/>
[Retrieved 2010-05-12].
APPENDIX 1 - COVER LETTER TO QUESTIONNAIRE

(Translated from Swedish to English)

Hello!

Would you like to help to contribute in investigating how extended audit tenures affect your independence? We would be deeply grateful if you could spare a few minutes to answer our questionnaire, it takes about x minutes to fill in.

Conducting the investigation, are two students at Umeå School of Business who study at the master program in Accounting and right now, we are writing on our master thesis.

All responses will be treated confidential and your identity shall remain anonymous. We have randomly selected you from the membership list at FARSRS and we hope you can contribute to the implementation of our study. To find the survey, please click the link below.

If you would like to receive a copy of the thesis when it is finished; feel free to contact us.

Thanks in advance!

Sincerely, Joel Karlsson and Etienne Chia-Ah

Link to survey: X.Y.com

We would be grateful if you answered no later than Friday the 7th of May, 2010.

For further inquiries, please contact us through e-mail or telephone:
Joel Karlsson - joka0013@student.umu.se, 070-XXXXXXXX
Etienne Chia-Ah - etch0002@student.umu.se, 070-YYYYYYYY (Only English)
APPENDIX 2 - TRANSLATION OF QUESTIONNAIRE

(Translated from Swedish to English)

Do extended audit tenures have an impact on auditor independence?
This survey is intended to be used as part of a master thesis in auditing. Conducting this research, are two students at Umeå School of Business and Economics (USBE) who study at the masters program in accounting. The main purpose of this study is to examine whether extended audit tenures can lead to the emergence of threats to auditor independence which may impair the auditor independence. This paper thus sets out an auditor perspective and your opinions are critical to the quality of work. We shall be very grateful if you take out some time to complete the survey.

We want to remind you that your answers will remain completely anonymous and confidential.

Thanks for your kind cooperation in advance!

NOTE: Do not forget to send your answers when you filled out the questionnaire by clicking "Submit" at the bottom of the page.

To what extent do you think that the situations described below can affect auditor independence?

1. An auditor has had a client for less than 3 years. The client fees represents more than 15% of the Auditor’s revenue.

   | 1 | 2 | 3 | 4 | 5 |
---|---|---|---|---|---|
   |   |   |   |   |   |

   Seriously undermines independence   Strongly enhances independence

2. A client that an auditor has had for less than 3 years has unpaid audit fees.

   | 1 | 2 | 3 | 4 | 5 |
---|---|---|---|---|---|
   |   |   |   |   |   |

   Seriously undermines independence   Strongly enhances independence

3. An auditor has had a client for less than 3 years; the auditor also provides non-audit services to the client. The value of the non-audit fees is equal to or greater than 100% of the audit fees.

   | 1 | 2 | 3 | 4 | 5 |
---|---|---|---|---|---|
   |   |   |   |   |   |

   Seriously undermines independence   Strongly enhances independence
4. An auditor has had a client in less than 3 years; his firm also provides non-audit services to the client. The value of the non-audit fees is up to or equal 25% of the audit fees.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. An auditor is acting in secret as an advocate in litigation or other disputes on behalf of a client that he had in less than 3 years.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. An auditor recommends a close friend through a dummy to trade in shares or financial securities in a client that the auditor had in less than 3 years.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. An auditor is threatened with disciplinary action by a regulatory body of a client he has had in less than 3 years.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. An auditor is threatened with legal action by a client that he had in less than 3 years.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. A client that an auditor had in less than 3 years threatens to replace the auditor with another auditor as a result of a dispute between them.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
10. A family member holds a position with a client that an auditor had in less than 3 years.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. An auditor accepts undue hospitality or gifts from a client he had in less than 3 years.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. An auditor has had a client for less than 9 years. The client fees represent more than 15% of the Auditor revenue.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. A client that an auditor has had for more than 9 years has unpaid audit fees.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. An auditor has had a client for more than 9 years; his firm also provides non-audit services to the client. The value of the non-audit fees is equal to or greater than 100% of the audit fees.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. An auditor has had a client for more than 9 years; his firm also provides non-audit services to the client. The value of the non-audit fees is up to or equal 25% of the audit fees.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Strongly enhances independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
16. An auditor is acting in secret as an advocate in litigation or other disputes on behalf of a client that he had for more than 9 years.

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Seriously undermines independence  ☐ ☐ ☐ ☐ ☐

Strongly enhances independence  ☐ ☐ ☐ ☐ ☐

17. An auditor recommends a close friend through a dummy to trade in shares or financial securities in a client that the auditor had for more than 9 years.

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Seriously undermines independence  ☐ ☐ ☐ ☐ ☐

Strongly enhances independence  ☐ ☐ ☐ ☐ ☐

18. An auditor is threatened with disciplinary action by a regulatory body of a client he has had for more than 9 years.

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Seriously undermines independence  ☐ ☐ ☐ ☐ ☐

Strongly enhances independence  ☐ ☐ ☐ ☐ ☐

19. An auditor is threatened with legal action by a client that he had for more than 9 years.

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

 Seriously undermines independence  ☐ ☐ ☐ ☐ ☐

Strongly enhances independence  ☐ ☐ ☐ ☐ ☐

20. A client that an auditor had for more than 9 years threatens to replace the auditor with another auditor as a result of a dispute between them.

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Seriously undermines independence  ☐ ☐ ☐ ☐ ☐

Strongly enhances independence  ☐ ☐ ☐ ☐ ☐

21. A family member holds a position with a client that an auditor had for more than 9 years.

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Seriously undermines independence  ☐ ☐ ☐ ☐ ☐

Strongly enhances independence  ☐ ☐ ☐ ☐ ☐
22. An auditor accepts undue hospitality or gifts from a client he had for more than 9 years.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seriously undermines independence</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

**Background information**
- Gender
  - Male
  - Female

**Experience**
- How many years have you worked as an auditor?
- Audit firm (Primary employer)
  - Small local firm
  - Regional firm
  - National or international firm, non Big Four
  - Big Four

**Other Comments**
- Here you have the possibility to add an explanation to your answers or other feedback.