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Is Auditor Independence Influenced by Non-Audit Services? A Stakeholders' Viewpoint

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Abstract

The auditor may provide numerous services to their clients covering audit and non-audit services (NAS). These services have been considered as a combination of services offering varying results for client firms. The mixed results reported by past studies in measuring the relation between NAS and auditor independence had generated the need of further investigation. Moreover, the dearth of literary evidence from a developing country like Pakistan also created a need for such a study. Considering the gaps left unaddressed in past studies, the current study aims at investigating the possible relationship between NAS and auditor independence.

Data of the study was collected from three stakeholders of audit (i.e. accountants, finance managers, and internal auditors). Data collected through the questionnaire proved that various respondent groups have different opinions about the said relationship. It was observed that NAS were believed to have positive, negative and no effects on auditor independence. Moreover, occupational level, experience and educational level of the respondents was also observed to have significant bearing on the opinion about NAS and auditor independence relationship.

The changing dynamics of the audit profession with abridged trust in its services, caused by NAS, have created the need for investigation focusing on views of various stakeholders of such services. This study attempts to provide empirical evidence on the varied perspectives.

Keywords: auditor independence, internal auditors, non-audit services, Pakistan.

1. Introduction & Background

An audit is a profession with a valuable contribution towards firms, stakeholders and the society. An auditor is desired to offer an unbiased opinion about financial statements, which is useful to ensure fairness of financial statements. Based on the principal-agent (agency) relationship between shareholders and auditors, it is expected that the auditor shall provide fair an unbiased opinion on the financial statements so that the shareholders may take investment decisions. But the advent of the 21st century has brought along various audit-related concerns (Chiang, 2016), covering globalization, dynamic environment, growth of multinational firms and information technology have influenced the ways businesses are carried out; and the audit profession is not an exception to that. One of the inordinate changes is the adoption of non-audit services (henceforth, NAS) in the auditing profession (Jenkins & Krawczyk, 2001), creating a multidisciplinary nature of the audit profession (Brierley & Gwilliam, 2003; Jenkins and Krawczyk, 2001). Craswell (1999) and Quick & Warming-Rasmussen (2005) commented that the provision of NAS has not only revolutionized the audit profession but also raised issues of auditor independence. The accounting scandals and global financial crisis have added fuel to the fire as there are increased doubts on the quality of audits and reports generated. The most discussed of all is the scandal of Enron, which led to the closure of the audit firm i.e. Arthur Anderson (Crockett & Ali, 2015; Vinten, 2003).

In response to all such scandals, the US congress rivaled an Act named Sarbanes-Oxley (SO) in 2002 which is aimed at protecting all stakeholders from such scandals and reporting crises. The act was also directed at the provision of credible financial statements that may enable investors to make rational decisions. Such a similar effort was made at the European Union where Green Paper was introduced in 2010. Both these legal efforts desired the auditors to work independently by removing all the barriers hampering their independence, which is demarcated as an auditor's ability to give a fair and unbiased opinion. It's also termed as the ability of the auditor to deal with all pressures that may influence the quality of reporting (Knapp, 1985).

While looking at the factors that may hinder the independence of the auditor, Non-audit services (henceforth, NAS) are the most important determinant. NAS means services provided by the auditor to its client other than the external audit services. These services may include accounting, legal, management, tax and other related services (Kinney, Palmrose & Scholz, 2004). Provision of NAS by the auditor is often questioned and often restricted in various parts of the world (e.g. Sarbanes-Oxley Act; European Green Paper of Audit Policy), as it is observed that such services influence the opinion of auditor and quality of audit (Alexandar & Hay, 2013; Dobler, 2014; Ratzinger-Sakel & Schonberger, 2014).

To overcome the issue of NAS US regulators have adopted nine types of NAS (Sarbanes & Oxley, 2002), which are believed to be inconsistent independence and include actuarial, bookkeeping, financial information systems, internal auditing, legal and human resource planning services. While investigating the impact of such services, Beattie, Fearnley, and Brandt (1999) reported that accounting services are the most widely used NAS by firms in the UK; while it was believed by German auditors that the auditor independence is compromised when the widespread accounting services are outsourced to the auditor (Dykxhoorn and Sinning, 1981). It was further reported from the Canadian audit industry that the provision of NAS influences the relationship between auditor and client. An auditor was found to be influenced by the client when they used to provide executive search and accounts services, thus influencing their independence (Lindsay et al., 1987). But independence is assumed to be a shields auditor's independence from external pressures, but there are mounting doubts about the NAS and its influence on auditor independence, the research on such issues is considered important (Khasharmeh & Desoky, 2013).

This has made NAS and its influence on audit quality as one of the most discussed topics in accounting and auditing literature, and a question that has been demanding answer ever since (Meuwissen & Quick, 2019). It is therefore argued that when an auditor provides NAS to its clients a bond of economic nature comes into existence, which ultimately hampers the quality of reporting. It is also observed that auditor independence is largely influenced by the situation as well, as when auditor feels that NAS can settle auditor on a beneficial position and client has to rely on auditor for improvement of the processes the independence is impaired (Kang et al., 2019). There has been debate on the said issue as the studies probing the NAS and audit quality link offer mixed results, but recent work of practitioners in the USA and other parts of the world have found that the audit reporting is impaired by the NAS (Causholli et al., 2015).

By valuing the possible impact of NAS on auditor independence, the core aim of the current study is to report the results from the context of a developing country (i.e. Pakistan). Past studies have largely focused on Anglo-Saxon or European countries (Meuwissen & Quick, 2019), while there studies in this region of the world are scant. Moreover, developing countries are found to lack research on emerging issues in the audit profession (Joshi et al., 2007; Khasharmeh & Desoky, 2013). Thus this study offers empirical evidence from a developing country. Moreover, this study offers a piece of evidence from accountants, finance managers and internal auditors who are involved in accounts preparation, audit and final reporting. As all these stakeholders are directly involved in the pre-process–post-audit activities, the results generated could be useful for academics, practitioners, and managers. The findings will provide insight from the field and how the audit profession is carried out in the presence of NAS, and how NAS influence auditor independence in developing countries.

2. Literature Review

2.1 Agency Relationship between Shareholders and Auditors

An auditor is assumed to offer an unbiased and fair opinion on the financial statements of a firm, as the shareholders (principal) have to make investment decisions based on their reporting. The said relationship can be explained with the help of the agency theory, which helps in explaining the relationship between the principal and their agents in the organizations. The most common of all such relationships are shareholders (principal) with the management of the company (agents) and auditors (yet, another agent), where principal hires agents to perform services for them (Adam, 1994).

As principal's financial decisions are dependent upon the opinions and reporting of these agents, which may also lead to "principal-agent problem" in case of difference of opinion between principal and agent. An agent uses principal resources, while principal relies on the information provided by the agent (management) and failure in providing true and fair information may influence the outcomes for the principal, thus reliance on agents creates a problem between two parties. Often the issue arises due to self-interest and asymmetric information, which reduces the trust a principal has on its agents. Under a simple agency mechanism where the principal does not trust agent (i.e. management), the auditor (an external expert, another agent) is hired to give their opinion on the financial information (statements) prepared by the management. Thus another principal-agent relationship is generated between shareholders (principal) and an auditor (agent). Here again, the principal-agent problem or issue of asymmetric information may emerge if the auditor fails to provide an independent opinion, thus the value of auditor independence emerges (Agoglia et al., 2015; Colbert & Jehera, 1988).

2.2 Independence of an Auditor

Auditor independence is considered as an auditor's ability to offer an unbiased and fair opinion about financial reporting (Knapp, 1985). It's also believed to be the ability of the auditor to deal with all pressures that may influence the quality of reporting (Independence Standards Board, 2000). The issue of independence of an auditor is not new to the field of accounting and auditing, as Mautz and Sharaf in 1961 cherished the value of auditor independence as the cornerstone of the profession. Osei-Afoakwa (2013) further commented that auditors should build an objective, fair and independent opinion. According to Stevenson (2002) auditor is sought to bear the fair reporting responsibility for investors and all others concerned. The investors are found to be the party that is influenced the most as they are directly linked with the administrative efforts and overall firm performance (Chandler and Edwards, 1996; Cullinan, 2004), thus the fair reporting by auditors will ensure the working and performance of a firm.

It is therefore believed that without an independent auditor opinion the audit is believed to be of no value (Al-Ajmi & Saudagaran, 2011). The credibility and value of audit are largely dependent upon the reporting quality which is impaired and influenced by the auditor independence (DeFond & Francis, 2005; Johnstone et al., 2001). It is also evident in the literature that when the independence of the auditor is compromised the investors and other stakeholders' interest in audit quality is undermined, which ultimately influences the firm negatively. It is therefore valued that the auditor should be free in reporting and behave independently (Shaub, 2005; Sutton, 1997).

2.3 Factors Influencing Auditor Independence

Past studies have reported numerous factors that may influence auditor independence; for example, Dart (2011) conferred that independence is often influenced by the relation of tenure with the client, audit fee, and non-audit services (NAS). It is also commented that the nature of the relationship between audit and client is the major factor influencing auditor independence; while the relationship is often strengthened when the auditor had major revenue share from one client (Schneider, 2010) and NAS is one of the sources of major earning for audit firms.

2.3.1 Relationship between NAS and Auditor Independence

An insightful investigation of the literature highlights the fact that the results regarding NAS and auditor independence are mixed and varying ranging from positive to negative and even absence of a relationship between independence of an auditor and NAS has been noticed (DeFond et al., 2002; Chung & Kallapur, 2003; Geiger & Rama, 2003; Reynolds et al., 2004). Based on this premise this study focuses on all these possible relationships between variables of interest.

Plentiful research investigations have highlighted the positive relationship of NAS, independence and audit quality. For instance, Wallman (1996) concluded that the provision of NAS improves the abilities of auditors by making them familiar with the customer and enables them to help them in improving the overall efficiency of the business operations. Others have reported that NAS improves the abilities and skills of the auditor as she can have better understandings of the working of the client and thus can give a better opinion (Jenkins & Krawczyk 2001; Kinney et al., 2004). The auditor is found to give a better opinion on the statements and thus improve overall documentation and accounting practices.

According to Tun Uda (2002), It has been witnessed that an audit firm providing NAS has significant value for clients. Zhang, Hay, and Holm (2016) found that it's not conclusive that auditor independence is impaired by the NAS, as the working environment, types of clients and origin of the client and auditors may influence the NAS and independence relationship. It is further commented that the provision of NAS may reduce costs associated with the preparation of accounts, improves outcomes and reduces audit time thus overall offering cost advantage. Based on the highlighted benefits they also commented that NAS thus improves audit quality instead of impairing it (Arrunada, 1999). Palmrose and Saul (2001) further demonstrated that when the auditor provides both NAS and audit services the credibility of the auditor is improved, as it shows skills and capabilities of the firm. It is further concluded that NAS improves audit quality as such audit firms are well equipped with background information and knowledge (Sawan et al., 2013). It is further described that NAS increases audit quality so its effect on auditor independence may not be present (Antle et al., 1997). While highlighting the reasons for such relation it has been witnessed that those certain financial facts are only known when working on such matters come to the knowledge and the better the understanding between client and firm the better audit outcomes appear to be. It is also highlighted the fact that audit quality is influenced (or not) depending upon certain endogenous variables in the study (Joshi et al., 2007; Park et al., 2017). Khasharmeh and Nympha (2017) also found that the client type also relates to auditor independence and quality of audit.

Park, Choi, and Cheung (2017) observed that NAS and audit services provided to the same client may influence the overall quality of the audit. While Khasharmeh and Nympha (2017) and Khasharmeh & Desoky (2013) reported that the relationship between NAS and independence of the auditor is perceived differently by different stakeholders.

Contrarily to the positive view about NAS the opposite school of thought believes that when NAS is provided by an auditor the independence is often to be sacrificed to retain their client-firm relation (DeFond et al., 2002). Similarly, it is often believed that the provision of audit services reduces the quality of audit reporting by the auditor as the reporting may compromise to retain the customer. Moreover, the NAS creates a close-tie relationship between auditors and client thus may impair independence (Chukwunedu & Okafor, 2014; Wallace, 1995; Sutton 1997). Although the auditors are desired to maintain their independence and neutrality, the economic motives are believed to influence their independence preferences making NAS a threat to auditor position (Craswell, 1999). Kang et al., (2019) further commented that when an auditor believes that an auditor requires guidance and support through her services, the auditor is more prone to compromise independence and may follow the economic benefits in the first instance.

In past various studies have noticed that various stakeholders view NAS differently, for instance, Gul (1989) found that perceptions of respondents and bankers reported that NAS has a direct bearing on auditor independence. Furthermore, it is found that investors also consider that the NAS impairs auditor independence and overall audit quality (Krishnan et al., 2005). While looking at the reasons for such negative consequences Simunic (1984) highlighted that the economic resources generated due to NAS attract auditors to provide such services. The provision of such services, in return, creates a bond between both parties thus influencing their credibility and fairness. Auditors in such cases may not take a risk by disagreeing with the management of the firm and thus may not be able to generate an independent opinion (Ping, Carson, & Simmett, 2006). It is further commented that NAS often creates more revenues for auditors than the audit services and therefore its termed as more lucrative services to offer (Frankel et al., 2002; Joshi et al. 2007). Abdul Wahab, Zain and Abdul Rahman (2015) also noticed that the provision of NAS, the amount earned from such services and political connections may collectively influence the quality of audit.

Others researchers (e.g. Alleyne, Devonish, & Alleyne, 2006; Canning & Gwilliam, 1999; Frankel et al., 2002; Gendron et al., 2006; and Richard, 2006) have noticed that NAS restrict auditors from providing objective services and thus the auditor opinion and reporting may not be considered trustworthy. While explaining the relation and cause of this relation further Sori and Karbhari (2006) commented that the engagement team is unable to offer an independent opinion when they provide both audit and NAS together. While looking at the outcomes of NAS, Sharma, and Sidhu (2001) researched a firm that filed for bankruptcy and noticed that NAS fees have a direct bearing on the opinion of auditors about the firm. Moreover, NAS increase risk of lowering reporting quality as an auditor may not focus on reporting instead on retention of audit client (Frankel et al., 2002).

Causholli, Chambers, and Payne (2015) commented that revenue created by NAS has an attraction for the client and the opinion of an auditor may vary. They observed that there is a strong relationship between NAS and quality of reporting. Patrick, Vitalis, and Mdoom (2017) also observed that there is a strong association between NAS, audit quality and independence. While looking at the results of past studies, Albaqali and Kukreja (2017) directed future researchers to investigate factors affecting audit independence. They further concentrated that the NAS and independence are related and should be directed at attempts to overcome such issues at work.

Yet another opinion evident in literature is about the absence of any form of relationship between NAS and the independence of an auditor. For example, Bloomfield and Shackman (2008) reported a diverse opinion, so one cannot conclusively believe this statement. Similarly, its highlighted that NAS may not effect independence (Quick and Warming-Rasmussen, 2005; Sucher and Bychkova, 2001). Bugeja (2011) and Kinney et al. (2004) also noticed that there was no statistical association evident between auditor fee earned from any source and independence of the auditor. According to Carmona et al. (2015), when an auditor provides NAS to its clients it is not necessary that the independence will be impaired nor the quality of audit may get influenced (Carmona et al. 2015). While the same results are also observed in developed countries like Norway, where Zhang et al., (2016) noticed that the audit firms providing NAS are considered to be firms with the independence of opinion. Sobrinho and Bortolon (2016) observed the same results for Brazilian firms as independence is not impaired due to NAS.

From the aforementioned discussion and debate, it is evident that there is no conclusive debate that can be generated about NAS effects on auditor independence. Based on the said viewpoint following hypothesis is generated:

- **H_1:** Different stakeholders (accountants, finance managers, and internal auditors) will have varying views about the positive relationship between NAS and auditor independence.
- **H_2:** Different stakeholders will have varying views about the negative relationship between NAS and auditor independence.
- **H_3:** Different stakeholders will have varying views about no relationship between NAS and auditor independence.

A profound look at the accounting and auditor literature highlights that the outcomes of NAS (in the shape of increase/decreased auditor independence) have been perceived differently by various stakeholders (e.g. Solas & Ibrahim, 1992; Wallace, 1988). For instance, Al-Mubarak (1997); Desoky, (2002) investigated perceptions of accountants, auditors and managers and noticed that the viewpoints of all stakeholders differ. Meuwissen & Quick, (2019) investigated the viewpoints of supervisory board members and observed that the selected respondent group considered NAS impairs auditor independence and the overall opinion of the auditor is cynical. While investigating the causes of NAS influence on independence, Kang et al., (2019) found that it's the type of services and value of those services that influence the NAS and independence association. They reported that when the auditor perceives that she is providing some valuable services to the client, the NAS is more valued and ultimately firm may sacrifice its independence for the economic benefits of those services. Remenyi (1998) further suggested that the difference in viewpoint could be attributed to the various demographical variables of respondents. It has been observed that the type of relationship between auditor and client influence the overall working of an auditor, and thus may influence the independence (Krauss & Zülch, 2013). Harjoto, Laksmana, and Lee (2015) further commented that in the auditor-client relationship the demographics of various stakeholders may influence the way audit firms are assigned an assignment or selected for the activity. While investigating the relation further Kinney and Libby (2002) discussed that the personal factors of the audit committee may influence the audit firm selection, fee to offer and services to outsource. Thus internal stakeholders may influence the overall audit process. Furthermore, such relations (based on fee and audit assignment) may influence independence (Gul et al., 2007). The fee (one element of relation) is found to influence the independence of an auditor, as Campa and Donnelly (2016) observed that the fee influences the independence of the mind the most. Khasharmeh & Desoky (2013) also highlighted that researchers should consider the opinions of various demographical groups about auditor independence. They valued such investigation as there is an amplified value of one's characteristics and opinions. Moreover, they also cherished such investigation as various sub-groups (e.g. occupational groups, age groups, and educational groups) may have their value in the auditor profession. Based on the discussion provided above it is to conclude that the independence of the auditor is influenced as different internal stakeholders have different considerations while working with an auditor, thus the overall view of the internal stakeholders may vary. From the aforementioned discussion following hypotheses are formulated:

- **H_4:** Demographical description (Occupation, experience, and education) of the respondent has a significant effect on his/her perceptions of auditor independence.

3. Research Methodology

This study implies a quantitative design using a survey research strategy. Total 650 questionnaires were distributed using a convenience sampling technique, where only 515 responses were collected. 47 responses were either incomplete or carelessly filled so assumed redundant, thus 468 (80%) useful responses were considered for data analysis. The questionnaire was adapted from the work of Khasharmeh and Desoky (2013). The said measure was discussed with practitioners (chartered accountants) and academicians (teaching audit and accounts) and was further modified according to local settings. The revised version of the scale was used for data collection. The data collected through the adapted questionnaire was analyzed using two stages process, where the first stage covered preliminary analysis while the second stage covered hypotheses testing. The preliminary analysis covered reliability analysis where the overall score for reliability was above the threshold value of 0.70 (Pallant, 2013). The respondents of the study included accountants, finance managers, and internal auditors. All these stakeholder groups are considered valuable in the accounting and audit profession as they have either a direct or indirect influence on audit reporting. For instance, managers are considered to be agents of the firm/shareholders and ensure smooth working of the financial matters (Jensen & Meckling, 1976). Both the internal auditors and accountants are directly involved in the provision of information and accounting records for audit; thus their viewpoint about NAS and auditor independence is considered valuable (Khasharmeh & Desoky, 2013). As the data was mainly nominal or ordinal the data analysis was desired to carry out through non-parametric tests (Bryman & Cramer, 2000). Moreover, the analysis technique was considered desirable as the normality assumptions were not met. Pallant (2013) also suggested such tests when data is based on ordinal or nominal scales.

The respondents included accountants (33%), finance managers (35%) and internal auditors (32%), showing almost equal representation thus the sampling adequacy could be believed to be present. The majority of the respondents were in this profession for less than 15 years (i.e. 69%). The majority of the respondents were charted accountant (CA by qualification i.e. 32%).

4. Findings

4.1 Description of Sample

Table 1: Descriptive Statistics and Chi-Square Results

Questions	N	Min	Max	Mean	SD	Chi-Square	df	Sig
1	468	1	5	**3.86**	0.75	31.206	4	.000
2	468	1	5	3.56	1.02	29.107	4	.000
3	468	1	5	3.65	1.23	32.163	4	.000
4	468	1	5	**4.10**	0.69	47.703	4	.010
5	468	1	5	**3.90**	1.01	41.529	4	.000
6	468	1	5	**3.87**	1.03	43.205	4	.001
7	468	1	5	3.03	1.64	31.373	4	.000
8	468	1	5	3.76	1.19	38.840	4	.000
9	468	1	5	**3.87**	1.02	42.571	4	.000
10	468	1	5	3.66	1.17	35.428	4	.001
11	468	1	5	3.31	1.34	32.493	4	.000
12	468	1	5	3.70	1.08	41.563	4	.000
13	468	1	5	3.42	1.20	34.562	4	.000
14	468	1	5	2.99	1.83	29.693	4	.000
15	468	1	5	3.15	1.67	31.648	4	.020
16	468	1	5	3.24	1.36	30.862	4	.000
17	468	1	5	3.28	1.63	30.640	4	.001

Table 1 highlights the descriptive statistics (mean and standard deviation) of all 17 questions. For analysis purposes, it has been assumed that the mean score above three highlights the importance/agreement of the respondent with the statement (against a five-point Likert scale). From the table, it is evident that Chi-square values for each question are significant ($p<0.05$), helping us infer that the answers of respondents are not equally dispersed among the different levels of agreement. Question statements 1, 4-6 and 9 are considered to be the most important or statement with the highest value of the agreement (means score ranging from 3.86 - 4.10). It is evident from the list of questions where the first eight questions belong to section-1, which assumes that NAS does not influence auditor independence. The next five questions try to probe the view of various stakeholders about “NAS do not impair independence” while the last four questions focus on “NAS has no relationship with auditor independence”. The significance values highlight the fact that respondent groups have varying views on these statements. The results of further probing against three sections are presented below:

Table 2: Descriptive Statistics and Chi-Square Results

Questions	N	Min	Max	Mean	SD	Chi-Square	df	Sig
Section-1	468	1	5	3.932	.8317	87.902	23	.000
Section-2	468	1	5	3.764	.7042	92.146	21	.000
Section-3	468	1	5	2.981	.9016.	106.348	17	.000

Table 2 highlights the values of chi-square for three sections of questions, where it is evident that the stakeholder groups significantly differ against the mentioned section (section-1: chi-square=87.902, $p<0.01$; section-2: chi-square=92.146, $p<0.01$; section-3: chi-square=106.348, $p<0.01$). These results help us infer that the respondents' answers were not equally distributed at various levels. Thus it is to infer that the views of various group members for a positive relation between NAS and auditor independence (first view, section-1 of the table), negative relationship between NAS and auditor independence (second view; section-2) and no relationship between NAS and auditor independence (third view; section-3) were differently reported by respondents, thus first three hypotheses (H_1-H_3) are supported.

Table 3: Differential Analysis of Demographical Characteristics

Questions	Chi-Square	df	Sig
Occupation groups			
Section-1	25.394	2	.000
Section-2	13.246	2	.000
Section-3	5.031	2	.253
Experience			
Section-1	3.329	3	.102
Section-2	11.258	3	.041
Section-3	14.081	3	.002
Education Level			
Section-1	4.005	3	.027
Section-2	7.217	3	.613
Section-3	13.428	3	.012

To test H_4, a Kruskal-Wallis test, a non-parametric test was carried out. It was used to analyze the difference among various respondent groups. Table 3 shows the results of differences based on occupation, experience, and qualification. Occupational groups differ for their perceptions for section-1 and 2 (i.e. chi-square=25.394, p<.01 for positive and chi-square=13.246, p<.01 for the negative relationship between NAS and auditor independence), while the occupational group does not offer a difference for NAS and it's no relationship with auditor independence (chi-square=13.246, p>.05). The results highlighted the fact that the respondent groups (i.e. accountants, finance managers, and internal auditors) had a varying opinion about the positive or negative influence of NAS on auditor independence, while they did not vary on their opinion about on relationship between NAS and independence.

Similarly, concerning experience it is evident from the table that with a change in experience the respondents did not respond differently for NAS and impairment of independence (chi-square=3.329, p>.05 for section-1), thus it was to conclude that with a change in experience the respondents have the same opinion about no effect of NAS on independence. Further probing highlighted that even the respondents' groups had different views about the positive effects of NAS (chi-square=11.258, p<.05) and neither positive nor negative influence (chi-square=14.081, p<.01). Thus it was concluded that the experience of respondent groups influences their opinion about auditor independence.

It was further observed whether the educational level of the respondent influences their perceptions about auditor independence in the presence of NAS. Here again, all three possible outcomes of NAS were probed for the responses. The educational level is observed to generate varying opinions about NAS negative impact on independence (chi-square=4.005, p<.05). Further probing highlighted that NAS positive impact on independence was not differently reported by various educational groups (chi-square=7.217, p<.613), while it was also observed that different educational groups have different views about the 'no relationship between NAS and independence' (chi-square=13.428, p<.05). The mentioned results highlight the fact that the groups had a difference for section-1 and 3 (negative & no-association between NAS and auditor independence). The educational level group is only observed not to be different for section-2 (the positive relationship between NAS and independence). Thus the findings reveal that the demographical group differs for their opinions for the relationship between NAS and auditor independence, thus H_4 is also supported.

5. Discussion, Implications & Conclusion

This study entailed investigation of views of internal stakeholders about possible impact of NAS on auditor independence. The study investigated the selected respondent group's views on negative, positive or no impact of NAS on the auditor independence through structured questionnaire. The study adds value in existing literature by providing empirical evidence from a developing country. Additionally, the study also entails investigation of demographical factors and its impact on the perceptions about auditor independence. The study was considered important because the literature reporting findings from developing countries is scarce and the existing literature provides inconclusive evidence about the possible impact of NAS on auditor independence (Khasharmeh & Desoky, 2013). The results of the study revealed that the selected stakeholders have varying opinions about the impact of NAS. For instance, it is witnessed that the stakeholders viewed NAS can influence independence positively, negatively and even no impact may be witnessed. Further evaluation highlighted the fact that the respondent groups had varying opinions about the influence of NAS (i.e. NAS can have positive, negative or no effect on independence). Considering the varying opinions, further follow up was designed when demographical factors were assessed for the difference in the relationship between NAS and independence. It was found that accountants, finance managers, and internal auditors were found to have different opinions about negative and positive effects of NAS on independence, while no difference was reported for the statements assuming no relationship between the constructs. It was also observed that with the change in experience the stakeholders did respond to varying opinions about positive and no relationship between NAS and independence. The findings also reveal that also observed that with a change in tenure the view point about the negative impact of NAS is not significantly different. The education level of respondents was also found to not influence the respondents' opinion of the positive influence of NAS on independence, while had significant bearings on the respondents' view about negative and no relationship between NAS and auditor independence.

Past studies have also noticed that various stakeholders perceived the relation differently. For instance, it has been observed that there are significant differences among various stakeholders about the relationship of NAS and independence of auditor (e.g. Solas & Ibrahim, 1992; Wallace, 1988); while others stakeholders have noticed no relationship between the variables of interest (Al-Mubarak, 1997 and Desoky, 2002). While explaining this relationship, Gul et al., (2007) commented that internal stakeholders (e.g.

audit committee) significantly influence the audit and relationship with the auditor. Camba and Donnelly (2016) further commented that the fee determined by the committee influences overall auditor independence. Harjoto et al., (2015) valued the auditor assignment procedure as a mechanism that may raise questions on the working and performance of an audit. Thus our findings are in-line with the mentioned studies. Such results were also evident by the studies of Meuwissen and Quick (2019) who found that the supervisory board also perceives the negative influence of NAS on auditor independence. As the findings of the current study are varying the results thus stand tall with the past studies by providing a mixed opinion about the relationship of NAS and auditor independence.

While linking the study findings with the agency theory, it is highlighted that as the internal stakeholders (accountants, finance managers, and internal auditors) have varying opinions about the role of an auditor in the provision of independent opinion in presence of NAS, it could be expected that the independence may be impaired (the worst case – when NAS is perceived to influence independence) the asymmetric information flow and the principal-agent problem may exist between shareholders and auditors. Thus NAS, while having a view of agency theory, may have a strong bearing on the bond between principal and agent. While looking at another side of the mirror (when we assume the positive influence of NAS on auditor independence and quality) it is expecting that the bond may strengthen between shareholders and auditors. Thus NAS has a strong bearing on the principal-agent relationship and thus holds a significant value to have an eye at.

The study is useful both academically and practically. The empirical evidence from a developing and least investigated segment provides empirical evidence. Moreover, the findings are useful for managers and practitioners as it highlights the perceptions of occupational, educational and experience groups of professionals. The findings from these demographical groups could thus be used for decision making based on reported perceptions.

Though researchers have carried out this research with a moderate sample size and with a detailed investigation of literature the study still have some limitation. Where the prime limitation is investigation of only three demographical groups which could be extended further to other groups e.g. external auditors, students of audit studies, members of listed and non-listed companies, and size of the audit firm. Future researchers should also consider the other factors influencing auditor independence for instance audit fees, audit team characteristics, tenure of audit relation and other factors. Moreover, instead of auditor independence audit quality could also be considered as an outcome variable. Future studies could also have an in-depth investigation of the clients' characteristics and its influence on the relationship between NAS and auditor independence, as Kang et al., (2019) observed that the influence of NAS, on auditor independence, is dependent upon the client performance and only low performing firms may have a significant impact of NAS on independence. Yet another aspect for future studies could be the perceived independence (by mind) and in real (by appearance).

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