



ATTRIBUTES OF PERCEIVED AUDITOR INDEPENDENCE IN SAUDI ARABIA

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ABSTRACT

Perceived auditor independence is a key component to ensure trust to different interested parties in accounting information and audit reports. This paper seeks to identify the main attributes of perceived auditor independence in Saudi Arabia. The survey explores the impact of 46 attributes on the perceptions of 32 directors and 31 auditors in Saudi Arabia using questionnaire instrument. Joint audit and partner reviews are considered by Saudi directors as the most important enhancing attribute. Although the presence of an operational audit committee and disclosure of audit fees are the major enhancing attributes for auditors, the provision of non-audit services is considered by directors as the strongest reducing attribute of auditor independence. Whereas existence of a financial relationship between auditor and auditee is considered by auditors as the most important reducing attribute. This study serves to assist auditing policymakers, accounting regulatory bodies, and governments in MENA countries in their attempt to develop policies and guidelines to ensure enhanced auditor independence. The survey enriches the restricted empirical studies on auditor independence in Saudi Arabia.

JEL Classification: M42

Key words: Auditor, Independence, Perceptions, Attributes, Saudi Arabia

1. INTRODUCTION

The decline of auditor independence represents the most common reason for the major financial international scandals and auditing failures (Law, 2010). It was evidenced that these accounting scandals strongly negatively affected perceived auditor independence (Bakar and Ahmad, 2009). Indeed, the financial scandals followed by the

discovery of accounting misrepresentations cast doubt on the credibility of account certification besides raising questions about independence of the principal guarantor of accounting information reliability (Cao et al., 2019; Loehlein, 2017; Mgbame et al., 2012).

Saudi Arabia has also been shaken by accounting collapses such as the telecommunication company scandal of Etihad Etisalat and the failure of MMG (Mohammad Al Mojil Group Saudi Arabia). These scandals have contributed to loss of confidence and trust of outside partners in the audit reports and have placed auditor independence at the center of professional and academic research (DeAngelo, 1981).

The academic literature on audit independence identifies two forms of independence. Real independence means the capacity of the auditor to expose anomalies and express his or her opinion freely (Prat Dit-Hauret, 2003). This form of independence concerns the state of mind related to professional objectivity (Gul and Tsui, 1992; Dykxhoorn and Sinning, 1982). The second form is the perceived independence explained by Richard (2006) as perceptions of different users of accounting information of auditor independence.

The main research question of this study is: what are the principal attributes of perceived auditor independence in a developing market particularly in Saudi Arabia?

This research chose the Saudi context because it is the principal country in the Middle East and the most important Arab market that is based on oil exports (Alsaeed, 2006; Al-Twajry et al., 2003). Therefore, Saudi Arabia gives great concern to regulations related to development of governance requirements aimed at ensuring protection of shareholder rights. Indeed, these reforms seek to enhance high-quality reporting and transparency by strengthening auditor independence.

Findings obtained can improve the debate on auditor independence in the context of a growing market. The study is also relevant to policy makers and professional accounting bodies. It might be helpful in assuring appropriate audit regulation. In addition, this research can help to inform auditors about the attributes influencing perceptions of their independence. The paper is structured in the following way. Section 1 discusses the auditing environment in Saudi Arabia. Section 2 gives an overview of prior studies on perceptions of auditor independence. Section 3 explains the research methodology. Section 4 provides findings obtained within the Saudi context. Section 5 sets out the conclusions.

2. AUDITING ENVIRONMENT IN SAUDI ARABIA

2.1 MONITORING BODIES IN SAUDI ARABIA

We present below the most important state bodies regulating companies and the audit profession in Saudi Arabia.

The Ministry of Commerce and Industry (MCI) created in 2003 aims at supervising and controlling the activities of Saudi companies. Its main objective is to achieve sustainable economic development.

The Capital Market Authority (CMA) was established in 2003 by Royal Decree No. N/30 dated 31 July, 2003 and reports directly to the Prime Minister. Main priorities of the CMA are: Increase performance and reliability of Saudi stock market operations, regulate and control publicly traded companies, and protect investors from illegal practices. Overall, the Capital Market Authority creates stability and security in the Saudi market.

In Saudi Arabia, the stock market (TADAWUL) appeared in 1930 with the creation of Arab Automobile, the primary Saudi joint stock company. Subsequently, several joint stock companies have emerged. Exchange reached 164 listed companies in 2013. In 2005, TADAWUL occupied the first class in the emerging countries in reference to market capitalization.

The Saudi Stock Exchange is indirectly monitored and governed via the Saudi Capital Authority and the Prime Minister. Principal objectives of the Saudi Stock Exchange are to ensure market efficiency and integrity, to support competitive investment and to enforce implementation of professional standards.

Another accounting organization contributes in a major way to establishment of accounting and auditing requirements in Saudi Arabia: Saudi Organization for Chartered Public Accountants (SOCPA) . Its roles include controlling practices of certified public accountants, developing ethical standards, publishing relevant accounting and auditing material.

2.2 REGULATION OF AUDITING PROFESSION IN SAUDI ARABIA

The appointment of minimum one independent auditor is required in the Saudi context for some companies such as public companies and limited liability companies, though financial institutions must designate two independent joint auditors. It is required that the auditor

has a license in accounting. Auditors of banks and joint stock companies must have been registered for more than five years.

Although financial institutions must adhere to International Accounting Standards, most Saudi listed companies should produce their annual reports according to Saudi Arabian Generally Accepted Accounting Principles (Saudi GAAP).

Since 2017, all listed companies, banks, and insurance companies are required to adopt IFRS Standards and International Standards on Auditing (ISA) to enhance financial reporting quality. Since 1981, the King Saud University has organized seminars and congresses concerning the development of accounting in Saudi Arabia to promote accountancy insights, develop academic productions, and propose appropriate solutions to some problems that may hinder accounting requirement progress.

So the King Saud University and the Saudi Accounting Association (SAA) have positively influenced the development of the accounting and auditing profession in Saudi Arabia. In Saudi Arabia, the legal framework surrounding the accounting and auditing profession include the Income Tax and Zakat Law 1950, the Companies Act 1965, the Banking Control Law 1966, the General Auditing Bureau Constitution and Regulation 1970, the Statutory Accountants Act 1973, and the Professional Code of Ethical Conduct 1994. These legal pronouncements led to improved auditor independence in Saudi Arabia. Table 1 summarizes auditor responsibilities as found in the various Saudi Arabian legal pronouncements.

TABLE 1
Regulatory Framework of the Auditing Profession in Saudi Arabia

Regulatory Sources	Auditing Scope
Income Tax and <i>Zakah</i> Law 1950	Auditor independence
Companies Act 1965	Designation of external auditor Relations between auditor and directors Auditor's opinion Reporting any problems in getting access to information during the conduct of audit

TABLE 1 (continued)

Regulatory Sources	Auditing Scope
	Reporting any problems in getting clarification from management during conduct of audit
	Reporting all violations of rules and regulations
Banking Control Law 1966	Auditor independence
	Requirement to appoint auditors
General Auditing Bureau Constitution and Regulation 1970	Execution of comprehensive post-auditing on the state's revenues and expenditures
Statutory Accountants Act 1973 (amended 1994)	Auditor objectivity and independence
	Relationship between auditor and their audit clients
Professional Code of Ethical Conduct 1994	Auditor objectivity and independence
	Auditor integrity
	Auditor professionalism

3. LITERATURE REVIEW

Firms are perceived as the nexus of contractual relationships between different interested groups: managers (agents) and shareholders (principals) and creditors (principals) and shareholders (agents). In these agency relationships, the agents are expected to act in the best interests of the principals. Nevertheless, experience shows that various mechanisms must be put in place to ensure that agents protect the interests of the other parties involved. One such important mechanism is the audited financial statement (Watts and Zimmerman, 1986; Chow, 1982; Jensen and Meckling, 1976).

In order to mitigate the agency problem, auditors should provide high-quality audits. According to De Angelo (1981), the audit quality is a combination of two probabilities: that of detecting a misstatement (competence) and that of reporting it (independence).

The second component, namely, "independence" is the cornerstone of the auditing profession (Blay and Geiger, 2013; Akpom and Dimkpah, 2013; Moore et al., 2006). It is defined as the ability to resist client pressure when conducting an audit, so that the auditor professional integrity is not compromised (Gay and Simnett, 2003; Knapp, 1985).

An auditor should be independent both in fact and in appearance (Raiborn et al., 2006). Where independence in fact represents the actual objective state of the relationship between auditing firms and their clients, while independence in appearance represents the external assessment made by the public about the auditor.

The principle of independence is stated in the Code of Ethics of Professional Accountants (IFAC, 2018), which affirms that auditors should make judgements without bias or any conflict of interest and without being influenced by others. Violation of this code by auditors was the major cause of several recent corporate failures and scandals in the world (i.e., the collapse of Enron, which resulted in the closure of Arthur Andersen, one of the major international accounting firms).

The perceived auditor independence by different interested parties can deviate from independence in fact. The principal auditor's responsibility is to reveal the reality in financial reports and that is what different parties predict. Nevertheless, the auditors cannot report the truth which may not meet user expectations (Behzadian and Izadi Nia, 2017; Salehi, Mansoury and Azary, 2009). This lack in audit effectiveness is usually termed audit expectation gap.

The independence of external auditor received recurrent inquiry in Saudi Arabia. Audit failures have also made their way to Saudi companies and have not been restricted to the western context only. Particularly, the accounting scandals in the Saudi context involved MMG (2014) and Etihad Etisalat Co., the Saudi phone operator, known as Mobily (2014). These failures and collapses exposed accounting fraud in Saudi companies and raised doubts about the role of auditors in discovering irregularities.

Beattie et al. (1999) pointed out the lack of models associated with independence issue due to the absence of explicit theory on this subject. They identify two categories of dimensions influencing auditor independence: economic dimensions and regulatory dimensions.

The majority of empirical studies seeking to establish analytical models try to identify the attributes of perceived independence (Onulaka et al., 2019; Thornton et al., 2007; Teoh and Lim, 1996; Bartlett, 1993; Knapp, 1985; Pany and Reckers, 1980). Indeed, most of these studies emphasize determining the attributes that represent a menace to auditor independence (Bae, Kallapur, and Rho, 2012; Ronen, 2010). Limited importance has been attached to the

attributes that reinforce the perceptions of interested parties (Alleyne, Devonish, and Alleyne, 2006).

Francis (2004) highlighted the importance of perceptions due to the problem of direct observation of audit quality. According to Salehi et al. (2009), perceived independence is crucial since this form of independence is built upon public perception of what could reduce actual independence.

The empirical research conducted by Garcia and Humphrey (1992) in the UK and Spain investigated perceptions of auditors, directors, and investors concerning the supply of non-audit services by audit firms to their customers. Findings of this study suggested that the average answer was neutral for all groups.

A survey by Beattie et al. (1999) examined 45 factors that may reduce or improve perceived independence by empirically exploring auditors, directors and financial journalists' perceptions in the United Kingdom. The findings of this research showed that the three groups ranked factors relating to economic dependence among the top threatening factors.

Additionally, the empirical research developed by Alleyne et al. (2006) examined the factors influencing independence in appearance among 66 auditors and 148 users of financial statements in Barbados. Results obtained suggested that perceived independence is compromised by the supply of non-audit services, small firm size, and economic dependence.

According to Bakar and Ahmad (2009) perceptions of Malaysian loan officers are affected by competition among audit companies and the presence of audit committees.

A study carried out by Akpom and Dimkpah (2013) focused on investigating the views of 79 auditors and 127 non-auditors' executives in the Nigerian context. They report that the groups selected have the same perceptions regarding classification of factors on enhancement and threatening factors. However, they pointed out differences in the degree to which they affect the perception of independence.

Hamuda and Sawan (2014) attempted to examine perceived auditor independence in Libya. They found that internal auditors and financial managers supported the proposition that the reinforcement of auditing standards increase perceptions of auditor independence.

Mostafa, Hussain and Mohamed (2020) examined the effect of religiosity on the degree of auditor independence in Egypt. Results indicated that there is a significant interactional effect between the

degree of moral development and intrinsic religiosity on the degree of auditor independence.

4. METHODOLOGY

This study uses a methodology developed by Gonthier-Besacier, Hotteginde, and Fine-Falcy (2016) based on a qualitative questionnaire. Data collection involves investigation of the attributes of external auditor independence.

Firstly, 50 auditor independence attributes are identified from the extant literature of audit and from Saudi accounting and auditing regulations. Indeed, we drew from a review of theoretical developments dealing with the attributes of independence. This literature review was reinforced by professional standards of external audit.

Second, to assure questionnaire reliability, the authors performed individual face-to-face interviews with a sample of three directors and three auditors of various different profiles. Finally, the authors obtained 46 auditor independence attributes classified into four categories (Table 2 and Table 3). These attributes were compiled into a questionnaire.

The research instrument includes different parts. Part 1 focused on descriptive variables Part 2 is dedicated to examining attributes associated with auditors. Part 3 is about attributes associated with clients. Part 4 treated attributes associated with the auditor and the client. Part 5 focused on external attributes.

TABLE 2
Attributes Related to Auditors and Clients

Category of attributes	Attributes of auditor independence
Attributes related to auditor	<ul style="list-style-type: none"> A regional audit firm The small size of the audit firm Being a sole practitioner Active in the field of Audit since 5 years or more Auditor well informed in relation to accounting and audit standards Auditor has acquired experience in field of the same industry Auditors have a reputation of integrity

TABLE 2 (continued)

Category of attributes	Attributes of auditor independence
	<p>The auditor does not commit professional deviations in behavior outside of his audit tasks</p> <p>The auditor does not commit personnel deviations in behavior outside of his audit tasks</p> <p>Auditor respects with his personal tax duties</p> <p>Setting-up of the internal ethical chart by the audit firm</p> <p>Regarding the respect of professional secrecy</p> <p>Auditor respects of his dedication in relation to third parties</p> <p>The fact that the audit committee is operated by independent directors</p>
Attributes related to Client	<p>The fact that the audit committee is operational</p> <p>Existence of an independent audit committee</p> <p>Existence of a competent audit committee</p> <p>The bigger size of the audit committee</p> <p>An elevated rate of liquidity</p> <p>An elevated rate of profitability</p> <p>Auditor's income is contingent on the retention of a particular client</p>
Attributes related to auditor and client	<p>≥10% of total auditor earnings from one client Auditor</p> <p>Audit client obtains income other than those permitted by law</p> <p>Customer major to the company's Customer portfolio</p> <p>The involvement of managers in the auditor's remuneration</p> <p>The auditor is an investor in the customer's company</p> <p>The auditor is an employee in the customer's company</p> <p>The auditor and the customer are family related</p> <p>The auditor earns interest free loan from the customer</p> <p>Extra-audit services ≥ 100% audit fees</p> <p>The auditor is an employee of the auditee</p> <p>Non-audit services ≥ 50 % audit fees</p> <p>Non-audit services ≥ 25 % audit fees</p> <p>Setting-up of financial statements</p> <p>Setting-up of human resources tasks by the actual auditor</p>

TABLE 3
External Attributes

Rotation of audit partners
Rotation of audit companies
Publishing audit professional fees
Publishing non- audit professional fees
Publishing non audit services
Joint audit
Partner examination
External review
High level of audit filed concurrency
Low-ball offers
Sanction regimes

The sampling population identified for this study comprised two groups: auditors (professional accountants) working in audit firms and directors of Saudi companies.

In common with the survey developed by Beattie et al. (1999), this research examines perceptions of professional accountants rather than other interested parties because of their familiarity with the concept of auditor independence.

In accordance with Gonthier-Besacier et al. (2016), the selection of directors is justified by their dominant role in producing financial information and their selection of the auditor.

Directors and auditor's perceptions are evaluated on a five-point Likert scale: 1 (strongly reduced independence), 2 (slightly reduced independence), 3 (no effect on independence), 4 (slightly increased independence) and 5 (strongly increased independence).

Our questionnaire was directly distributed in May and June 2018 to 60 Saudi auditors and 60 Saudi directors. This study uses a convenience non-probability sampling technique because of the limited number of auditors and directors in Saudi Arabia who are willing to participate. It is difficult to have access to the full population (54 audit firms and 262 Saudi listed companies) and give each participant an equal opportunity to be in the sample.

Some 63 valid questionnaires were collected from 31 auditors and 32 directors presenting various socio-demographic characteristics. The response rate was 52.5%. This response rate is considered fairly credible compared to the rates found in previous related research (Mostafa Mohamed, and Hussien Habib, 2013; Law, 2010; Thornton et al., 2007; Narasimhan and Ng, 1999). Furthermore, the attributes

analyzed demonstrate adequate level of reliability (Cronbach's alpha 0.885).

We run several principal components method with Varimax rotation to highlight the structure of auditor independence attributes. The validity of this method is confirmed by the percentages of significant variances of each theme identified.

5. RESULTS AND ANALYSIS

We started by exposing in Table 4 the ranks and the mean scores relative to the 46 attributes studied for the two groups. Two categories of attributes are identified. Category 1 contains those attributes considered by the two samples that undermine auditor independence and category 2 includes those attributes considered that enhance auditor independence.

The attribute is viewed as an enhancing attribute of auditor independence if the mean score is higher than three. Whereas the attribute is supposed to reduce auditor independence for the means of less than three.

TABLE 4
Perceptions of Auditors and Directors Regarding Attributes of Auditor Independence

	Attributes	Directors			Auditors		
		MEAN ¹	EA ²	RA ³	MEAN	EA	RA
1	A regional audit firm	2.2500		10	1.3548		3
2	The small size of the audit firm	2.2500		10	1.4194		4
3	Being a sole practitioner	2.2500		10	1.4839		6
4	Active in the field of Audit for 5 years or more	3.5625	17		3.8065	12	
5	Auditor well informed in relation to accounting and audit standards	3.7500	12		3.7742	13	
6	Auditor has acquired experience in field of the same industry	3.7187	13		3.8065	12	
7	Auditors have a reputation of integrity	3.5313	19		3.7742	13	
8	The name of the auditor has been spared from fraudulent affairs	3.6250	16		3.8387	11	

TABLE 4 (continued)

	Attributes	Directors			Auditors		
		MEAN ¹	EA ²	RA ³	MEAN	EA	RA
9	The auditor does not commit professional deviations in behavior outside of his audit tasks	3.5938	17		3.7742	13	
10	The auditor does not commit personnel deviations in behavior outside of his audit tasks	3.6250	16		3.7419	14	
11	Auditor respects with his personal tax duties	3.5625	18		3.9032	10	
12	Setting-up of the internal ethical chart by the audit firm	3.5625	18		3.5484	15	
13	Regarding the respect of professional secrecy	3.6563	15		3.5484	15	
14	Auditor respects of his dedication in relation to third parties	3.6250	16		3.5161	16	
15	The fact that the audit committee is operated by independent directors	4.4375	6		4.0000	5	
16	The fact that the audit committee is operational	4.4688	5		4.1290	1	
17	Existence of an independent audit committee	4.3750	7		4.0000	5	
18	Existence of a competent audit committee	4.2813	8		3.9677	6	
19	The bigger size of the audit committee	4.1250	9		3.9355	7	
20	An elevated rate of liquidity	2.6875		11	2.7742		14
21	An elevated rate of profitability	2.6563		11	2.7419		13
22	Auditor's income is contingent on the retention of a particular client	1.6875		8	1.5484		10
23	≥10% of total auditor earnings from one client Auditor	1.6562		6	1.5484		10
24	Audit client obtains income other than those permitted by law	1.6875		8	1.6129		12

TABLE 4 (continued)

	Attributes	Directors			Auditors		
		MEAN ¹	EA ²	RA ³	MEAN	EA	RA
25	Customer major to the company's Customer portfolio	1.6562		7	1.6129		12
26	The involvement of managers in the auditor's remuneration	1.6562		7	1.5806		11
27	The auditor is an investor in the customer's company	1.5313		5	1.2258		1
28	The auditor is an employee in the customer's company	1.5625		6	1.2258		1
29	The auditor and the customer are family related	1.5312		4	1.2581		2
30	The auditor earns interest free loan from the customer	1.5312		4	1.2581		2
31	Non-audit services \geq 100% audit fees	1.4688		3	1.4516		5
32	Non-audit services \geq 50 % audit fees	1.4063		2	1.4839		6
33	Non-audit services \geq 25 % audit fees	1.4063		2	1.5161		9
34	Setting-up of financial statements	1.3438		1	1.4839		8
35	Setting-up of human resources tasks by the actual auditor	1.7812		9	1.5161		9
36	Rotation of audit partners	3.9063	11		3.6452	15	
37	Rotation of audit companies	4.0313	10		3.7742	13	
38	Publishing audit professional fees	4.5937	4		4.0968	2	38
39	Publishing non-audit professional fees	4.5937	4		4.0968	2	39
40	Publishing non-audit services	4.5937	4		4.0968	2	40
41	Joint audit	4.9688	1		4.0968	2	41
42	Partner examination	4.9688	1		4.0645	3	42
43	External review	4.9688	1		4.0323	4	43
44	High level of audit filed concurrency	4.9375	2		3.9677	8	44
45	Low ball offers	4.8750	3		3.9677	8	
46	Sanction regimes	4.8750	3		3.9355	9	

- 1- A mean of >3 reveals that the groups perceive the attribute as an undermining attribute to the auditor independence whereas a mean <3 reveals that the samples consider the factor as an enhancing attribute.
- 2- EA: mean rank of the enhancing attribute.
- 3- RA: mean rank of the undermining attribute.

5.1 ATTRIBUTES ENHANCING INDEPENDENCE

Out of the 46 attributes, directors and auditors perceived 27 attributes as enhancing auditor independence. The respondents identified a similar list of attributes, but with a different ranking.

Three attributes are analyzed to assess the effect of competence on perceptions of auditors and directors. All attributes related to competence were ranked lower signifying that the impact of these attributes is minimal.

Reputation is among the enhancing attributes of auditor independence according to the two groups. The auditors and directors ranked the two attributes related to reputation in the middle of the list of enhancing attributes.

Six attributes are analyzed to evaluate the influence of ethics on perceived independence. Auditors and directors ranked low attributes related to ethics revealing the insignificance of these attributes.

The five attributes representing the existence of the audit committee are highly ranked by auditors and directors among enhancing factors. Auditors classified the fact that the audit committee is operational as the most important factor among attributes enhancing auditor independence.

The two groups perceive this point as an enhancing attribute. The directors rank attributes related to auditor rotation in the 11th and 10th position while the auditors rank it as 15th and 13th.

Directors and auditors attached the highest importance to the disclosure of financial relationships. The three attributes related to disclosure of financial relationships are ranked in 4th position by the auditors and in the 2nd position by the directors.

The two groups rank highest attributes related to external reviews. The three attributes related to external reviews are ranked by the auditors as number one among factors enhancing auditor independence. Directors ranked joint audit in 2nd position. Other attributes associated with external reviews are also higher ranked by directors (3rd and 4th).

5.2 ATTRIBUTES REDUCING INDEPENDENCE

Out of the 46 attributes, the two groups perceived 19 attributes as reducing auditor independence with a different ranking. Three attributes related to audit firm size are included in this study. Auditors and directors perceive them as reducing attributes. The auditor sample ranks these attributes in the 10th position, whereas the directors rank them as 3rd, 4th and 6th.

The two attributes related to the strong condition of the audited firm are considered by the two groups as reducing auditor independence. The two factors are respectively ranked 11th by the auditors, and 14th, and 13th by the directors.

Five attributes related to the economic dependence of the auditor on the auditee are analyzed. Auditors and directors perceive them as reducing attributes. These attributes were ranked moderate by the two samples.

To test the impact of the existence of financial and personal relationships between auditor and auditee three attributes are included in the survey. The two groups perceive them as reducing attributes. Auditors rank them 5th, 6th and 4th respectively. Whereas directors rank these attributes as the first serious attributes that impair auditor independence.

These results are almost similar to those reported by Knapp (1985) who found that in situations of auditor-client, the weaker the condition of client, the more likely the perceived outcome of the audit would be inconsistent with the client's preference.

Five attributes representing non-audit service are selected in this study. Three attributes are related to the size of the non-audit services fees. The two other attributes are associated with the nature of services. All attributes are considered by our two groups as reducing attributes. The four attributes were highly ranked by auditors. Setting-up of financial statements is the most critical reducing factor for auditors.

These results lend further support to the study by Al-Ajmi (2009), which reports that users of financial statements perceive that the provision of non-audit services negatively affects auditor independence and, hence, the audit quality.

Our findings are conformable to those reported by Alleyne et al. (2006), Al-Ajmi and Saudagaran (2011), and Hamuda and Sawan (2014) in emerging countries. In accordance to these studies a high correlation between attributes analyzed is expected. A principal

components analysis with Varimax rotation was conducted to identify the significant dimensions of auditor independence.

All dimensions obtained are extracted employing the eigenvalue ≥ 1 .

Auditors:

Findings indicate the extraction of 9 dimensions which represent 91.332% of the variance among the independence attributes (Table 5). The top three extracted attributes for auditors are:

1. Ethics, reputation, and experience (19.17%).
2. Non audit services (17.184%).
3. Competition among audit firms and external reviews (12.972%).

For auditors, our results show that the most important extracted dimension include attributes related to ethics, reputation, and experience. Therefore, the perception of this group of independence is mainly explained by attributes related to auditors. Similarly, the provision of non-audit services is of a great importance for auditors in their perception of independence.

External factors such as competition and external reviews are also selected among the critical dimensions of auditor's independence.

TABLE 5
Dimensions Identified for Auditors Using Principal Component Extraction and Varimax

	Component								
	1	2	3	4	5	6	7	8	9
The auditor does not commit professional deviations in behavior outside of his audit tasks	0.956								
Auditors have a reputation of integrity	0.956								
Auditor well informed in relation to accounting and audit standards	0.949								
The name of the auditor has been spared from fraudulent affairs	0.947								
Auditor has acquired experience in field of the same industry	0.937								
The auditor does not commit personnel deviations in behavior outside of his audit tasks	0.925								
Active in the field of Audit for 5 years or more	0.864								
Auditor respects with his personal tax duties	0.809								
Non-audit services \geq 100% audit fees		0.918							
Setting-up of human resources tasks by the actual auditor		0.895							
Non-audit services \geq 25% audit fees		0.985							
Non-audit services \geq 50% audit fees		0.889							

TABLE 5 (continued)

	Component								
	1	2	3	4	5	6	7	8	9
Setting-up of financial statements		0.889							
Partner examination			0.977						
External review			0.959						
Joint audit			0.947						
High level of audit filed concurrency			0.881						
Low ball offers			0.861						
Sanction regimes									
The fact that the audit committee is operated by independent directors									
Auditor's income is contingent on the retention of a particular client					0.908				
≥10% of total auditor earnings from one client					0.908				
audit client obtains income other than those permitted by law					0.889				
Auditor perceives excessive fees compared to total income									
Customer major to the company's Customer portfolio					0.889				
The involvement of managers in the auditor's remuneration					0.834				
Being a sole practitioner						0.871			
A regional audit firm						0.825			
Small local firm									

TABLE 5 (continued)

	Component								
	1	2	3	4	5	6	7	8	9
Existence of a competent audit committee									
The fact that the audit committee is operational									
Existence of an independent audit committee									
The bigger size of the audit committee									
The auditor is an employee in the customer's company						0.965			
The auditor is an investor in the customer's company						0.953			
The auditor and the customer are family related						0.909			
The auditor earns interest free loan from the customer									
Setting-up of the internal ethical chart by the audit firm							0.962		
Regarding the respect of professional secrecy							0.962		
Auditor respects of his dedication in relation to third parties							0.917		
Publishing non- audit professional fees								0.957	
Publishing non audit services								0.957	

TABLE 5 (continued)

	Component								
	1	2	3	4	5	6	7	8	9
Publishing audit professional fees								0.957	
An elevated rate of profitability									0.951
An elevated rate of liquidity									0.949
Rotation of audit companies									
Rotation of audit partners									

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 11 iterations.

TABLE 6
Dimensions Identified for Directors Using Principal Component Extraction and Varimax

	Component								
	1	2	3	4	5	6	7	8	9
The involvement of managers in the auditor's remuneration	0.881								
The auditor is an employee in the customer's company	0.879								
Non-audit services \geq 100% audit fees	0.878								
The auditor is an investor in the customer's company	0.865								
Customer major to the company's Customer portfolio	0.864								
Audit client obtains income other than those permitted by law	0.849								
Auditor perceives excessive fees compared to total income									
The auditor earns interest free loan from the customer	0.848								
The auditor and the customer are family related	0.848								
\geq 10% of total auditor earnings from one client Auditor	0.828								
Auditor's income is contingent on the retention of a particular client									
Auditor respects with his personal tax duties		0.888							
Auditors have a reputation of integrity		0.827							

TABLE 6 (continued)

	Component								
	1	2	3	4	5	6	7	8	9
The auditor does not commit professional deviations in behavior outside of his audit tasks									
The auditor does not commit personnel deviations in behavior outside of his audit tasks									
Auditor has acquired experience in field of the same industry									
Active in the field of Audit for 5 years or more									
Auditor well informed in relation to accounting and audit standards									
The fact that the audit committee is operational									0.936
Existence of an independent audit committee									0.928
The fact that the audit committee is operated by independent directors									0.922
Existence of a competent audit committee									0.903
The bigger size of the audit committee									0.820

TABLE 6 (continued)

	Component								
	1	2	3	4	5	6	7	8	9
External review				0.924					
Partner examination				0.924					
Joint audit				0.924					
High level of audit filed concurrency									
Sanction regimes									
Low-ball offers									
A regional audit firm					0.876				
Small local firm					0.876				
Being a sole practitioner					0.876				
Setting-up of financial statements									
Non-audit services $\geq 50\%$ audit fees									
Non- audit services $\geq 25\%$ audit fees									
Setting-up of human resources tasks by the actual auditor									
Publishing non- audit professional fees						0.911			
Publishing audit professional fees						0.911			
Publishing non audit services						0.911			
Setting-up of the internal ethical chart by the audit firm							0.826		

TABLE 6 (continued)

	Component								
	1	2	3	4	5	6	7	8	9
Auditor respects of his dedication in relation to third parties									
Regarding the respect of professional secrecy									
Rotation of audit partners								0.890	
Rotation of audit companies								0.833	
An elevated rate of liquidity									0.849
An elevated rate of profitability									0.822
The name of the auditor has been spared from fraudulent affairs									

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 Rotation converged in 11 iterations.

Directors:

For this group, 9 dimensions have been identified which explain 89.325% of the variance. Findings regarding dimensions extracted for directors are presented in the following Table 6.

The top three extracted attributes for directors are:

- 1- Economic dependence (21.427%).
- 2- Reputation and ethics (18.645%).
- 3- Existence of an audit committee (15.668%).

Perception of directors is primarily explained by an attribute related to auditor and client: economic dependence. This attribute presents the most important dimension for directors. Results also show that the perception of this group is influenced by the auditor ethics and the reputation. Existence of an audit committee is an important dimension and occupies a dominant position in directors' perception of auditor independence.

It is not surprising though that both groups make similar perceptions about the structure of perceived independence with 10 broadly similar attributes. Results show that directors and auditors share a similar important attribute: reputation and ethics. Economic dependence and existence of an audit committee are a less important dimension for auditors than directors.

6. CONCLUSION

Our research aimed at identifying the attributes of auditor independence perceived by 31 auditors and 32 directors in Saudi Arabia. This paper focuses on the analysis of 46 attributes of perceived independence.

The findings reveal that a large set of attributes seriously affect perceived auditor independence. Auditors and directors have a similar perception of the classification of the 46 attributes into two categories, although, the two groups differ in perceiving the relative importance of the attributes found under the two categories.

Joint audit, partner examination, audit market competition and sanctions regime are regarded by Saudi directors as the most important independence enhancing attributes. For auditors, the presence of an operational audit committee, disclosure of audit fees, and the disclosure of non-audit services fees are the most important enhancing attributes.

Provision of non-audit services is considered by directors as the strongest reducing attribute of auditor independence. Whereas existence of a financial relationship between auditor-auditee is considered by auditors as the most important reducing attribute.

The 46 attributes are reduced using factor analysis to a limited set of uncorrelated dimensions (9 dimensions). Economic dependence and ethics are crucial dimensions of perceived independence for directors. Regarding auditors, reputation and experience are the most important factors.

This paper contributes to the auditing literature by providing rich data on the perceptions of The paper also contributes to the Saudi policymakers and professional accounting bodies on how policies and frameworks related to auditor independence can be structured to ensure adequate capital market regulation and enhance the awareness of users and auditors regarding the contextual factors surrounding the auditor role, in addition to the possible threats and enhancements factors affecting auditor independence.

However, there are imitations to this that should be noted research. First, the study investigates the perceptions of only two groups. Other interested parties such as an investors have been excluded from the study. Second, the research uses a questionnaire to gather information from auditors and directors. This measurement instrument has several disadvantages including biased response which may affect response validity.

Future studies should try to focus on exploring the principal causes of directors' and auditors' perceptions of auditor independence. Also, it is recommended that future research investigate the perceptions of other interested parties such as shareholders.

ACKNOWLEDGMENT

The authors would like to acknowledge the financial support provided by the Deanship of Scientific Research of the Northern Border University (Saudi Arabia) for research grant 7271-BA-2017-1-8-F

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