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An Examination of the Effects of Type of Engagement, Materiality and Structure on CPA Consulting Engagements with Audit Clients

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SYNOPSIS: CPA firms position themselves as providers of comprehensive professional services. In some cases, they have found it necessary to co-contract with non-CPA firms in order to provide these specialized services. The increase in such arrangements raises new questions and concerns regarding their propriety when performed with audit clients. Although a large research contingent has focused on consulting-related independence problems, research efforts have neglected an area rapidly growing in importance—the propriety of CPA firms performing third party consulting engagements with their audit clients.

This research assesses financial statement users' perceptions of auditor independence and financial statement reliability, as well as investment decisions when a CPA firm has performed consulting engagements *with* that audit client, as contrasted *for* that client. The objective is to test financial statement users' reactions to the existence and type of business relationship between CPA firms and their audit clients, as well as the effects of the materiality of the engagement and the degree of staff separation involved in the provision of such services. Results indicate that the existence and type of a business relationship between the CPA firm and audit client did not affect financial statement users' perceptions or decisions when the business relationship was of an immaterial nature. However, the materiality of the business relationship and the degree of staff separation had a significant impact.

Data Availability: Data used in this study are available from the authors.

INTRODUCTION

The major CPA firms are currently positioned as providers of comprehensive professional services with separate consulting departments that provide a variety of services other than audits, often to clients that also purchase audit services. In spite of the separation of departments, the relationship between the provision of audit and non-audit services has been problematical, especially to accounting regulators. These concerns were initially expressed in Congressional hearings in the late 1970s (Metcalf Committee 1976; Moss Committee 1978) and in the 1980s by

the Dingell Committee (1985). Central to these concerns is that the auditor-client relationship may be altered through the provision of consulting services.

As the size and complexity of clients' accounting systems needs have increased, CPA firms have expanded the types of professional services offered. A situation has evolved in which CPA firms have contracted with non-CPA firms (e.g., an engineering firm, a com-

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puter firm) as a means of combining their skills and resources to provide requisite services (Mednick 1990). As these arrangements have increased, new questions and concerns have emerged regarding their propriety when performed with audit clients. In other words, CPA firms want both to audit and work together with an audit client on consulting engagements for a third party. The AICPA (1995, ET 101) allows such arrangements in situations in which the consulting revenues are not material to the CPA firm. Conversely, the SEC does not permit such arrangements between CPA firms and their audit clients.

Lowe and Pany (1995) first studied the issue of CPA firms' performance of consulting services *with* their audit clients, as contrasted *for* their clients. They studied bank loan officers' responses to a loan case scenario and found that (1) a financially material business relationship affected loan officer perceptions more than an immaterial interest; (2) increases in the degree of separation within the CPA firm (of those performing the consulting services from those performing the audit) decreased independence concerns; (3) the type of business relationship between the CPA firm and its audit client did not affect loan officer perceptions; and (4) continuous engagements were viewed only slightly more negatively than one time noncontinuous engagements.

Our research extends this prior study using a context more similar to that questioned by the SEC. It also addresses a number of related, but somewhat different issues. First, it uses financial analysts replying to an investment decision, whereas Lowe and Pany (1995) utilized loan officers assessing a small company loan. The research instrument used in this study more directly parallels the situation of concern to the SEC in that an investment in securities of a publicly traded company is involved. Also, a very large company was used since financial analysts regularly deal with such publicly traded entities. It is relationships between these large companies and their Big 6 auditors that have historically provided independence concerns to regulators and Congress.

Second, this study includes a "control" group with no (consulting) business relationship existing between the CPA firm and audit client. Whereas Lowe and Pany (1995) only report comparisons of various manipulations of consultation services, this paper includes comparisons with a control group in which no such services were performed. Inclusion of such a control group makes it possible to compare situations in which an immaterial level of services was provided with those in which no services were provided. This is important to this study due to the SEC's contention that even immaterial relationships affect perceptions of independence (Katz 1989). Without a control group it is impossible to directly test this assertion. Finally, as does the earlier paper, this paper addresses both the degree of staff separation well as various types of business relationships but using an equity investment decision context.

The next section presents the regulatory background of the situation being examined, and develops research questions explicitly being addressed by this study. The third and fourth sections detail the research approach taken and present the statistical results. Finally, the last section discusses limitations and conclusions of the study.

RESEARCH QUESTION DEVELOPMENT

Background

The AICPA first formally acknowledged the importance of investor perceptions of CPA independence in 1973 when it required that its members consider whether they were "lacking in appearance in the eyes of a reasonable observer" (Arthur Andersen & Co. et al. 1991). In 1974, the SEC suggested in Accounting Series Release 165 that "independence in appearance," as well as in fact is important because investors assess the reliability of information as an input into the investment decision (SEC 1989, para. 3851). Both the actuality and appearance of auditor independence are important concepts. However, because users are, in general, unable to objectively measure actual auditor indepen-

dence, they must rely upon their subjective perceptions of auditor independence.¹

DeAngelo (1981a, 1981b) defines auditor quality as the probability that the auditor will both (a) discover a breach in the accounting system and (b) report the breach. Regarding auditor quality, auditors who lack independence may be less apt to report a discovered breach or apply less effort to discover one. Since the extent to which individuals rely upon financial statements depends in part on their perceptions of the quality of the audit, perceptions of auditor independence may affect perceptions of audit quality. These perceptions of audit quality may subsequently affect perceived financial statement reliability, which in turn may affect investment decisions.

Contracting arrangements entered into by CPA firms often involve the design and implementation of computerized information systems. As client systems needs have increased, CPA firms have expanded their services and at times have contracted with non-CPA firms to meet these needs. CPA firms and other firms have combined complementary skills and resources to provide these services in an efficient manner to a mutual client. For example, a CPA firm, software contractor and computer hardware manufacturer may combine their skills in developing a management information system for a mutual client. CPA firms are increasingly forming alliances with leading computer companies in an effort to boost their consulting businesses (Carroll 1991; Cole 1991; *Public Accounting Report* 1991, 1993, 1994a, 1995b). Andersen Consulting has established itself as the recognized leader in this area (*Accounting Today* 1994a; Berton 1995; *Public Accounting Report* 1994c, 1995b).

As these arrangements with non-audit clients are becoming increasingly common in the performance of requisite services, the propriety of such arrangements with audit clients has been questioned. Section 602.02.g of the SEC's (1982) Codification of Financial Reporting Policies states that "direct and material indirect business relationships, other than as a consumer in the normal course of business,

with a client...will adversely affect the accountant's independence with respect to the client." Relationships explicitly prohibited by this set of policies include: joint ventures, limited partnership agreements, investments in supplier or customer companies, (material) leasing interests, and sales by the accountant of items other than professional services.

Prime or subcontractor arrangements, while not specifically prohibited in Section 602.02.g, have been interpreted by the SEC to be a direct business relationship. In a letter to Touche Ross and Co. on May 18, 1981, the Commission stated that:

Since a contractor relationship between the client and accountant is a direct business relationship, other than as a consumer in the normal course of business, the staff believes such relationships would impair the accountants' independence regardless of the materiality of the contract. (Staubs 1981)²

This interpretation from the SEC is more restrictive than that of the AICPA Code of Professional Conduct (AICPA 1995) which allows contracting arrangements with audit clients as long as the financial considerations are immaterial to each party.

Petition Process

On March 29, 1988, a petition filed by Arthur Andersen & Co., Peat Marwick Main & Co., and Price Waterhouse requested that the Commission modify its expressed views and interpretations as stated in Section 602.02.g of the Codification of Financial Reporting Policies. The petitioners' main concerns were that a prime or subcontractor type of relationship (not explicitly prohibited by statute) is distinguishable

¹ The emphasis upon independence in appearance has been most evident during the recent petition process. Jonathan Katz of the SEC, in a February 14, 1989 letter states that, "The prime/subcontractor relationship impairs the auditor's independence, irrespective of whether the audit was in *fact* performed in an objective, critical fashion. Where such a unity of interests exists, there is an *appearance* that the auditor has lost the objectivity and skepticism to take a critical second look at management's representations in the financial statements" (emphasis added).

² This letter has been circulated to other accounting firms as a representation of the SEC's views. The letter has not been published or distributed widely to the accounting profession or public.

from investment arrangements, such as joint ventures, in which participants pool their capital. Further, the petition states that the present ruling of not allowing contracting is anti-competitive and deprives the ultimate consumer of the most efficient combination of products, resulting in higher costs or lower quality, or both. Given these concerns, the petitioners requested that Section 602.02.g be modified. The petitioners stated that there is no evidence that auditor independence is in any way diminished—either in fact or appearance—by prime or subcontractor arrangements with audit clients, regardless of materiality.³ However, they suggested that if there is a concern, a *materiality* standard could be used in evaluating the independence of an auditor with respect to its audit client with whom a prime or subcontractor arrangement exists.

Arthur Andersen & Co. also provided an October 6, 1988 supplement to the March 29, 1988 petition as a means to expedite the SEC's response. In this supplement, Arthur Andersen & Co. (1988) specifically pointed to a recent proposal from the United States Department of Energy (DOE) to audit various contractors engaged in the operation of uranium enrichment facilities. To assist the auditors in evaluating highly specialized internal controls and procedures, Arthur Andersen & Co. proposed to use a subsidiary of ERC International Inc. (ERCI), an energy firm which is highly regarded for its skills in this area. Coincidentally, ERCI had engaged Arthur Andersen & Co. as its independent auditor for the previous year. Due to DOE procurement policies, Arthur Andersen & Co. was required to enter into a subcontractor arrangement with ERCI in this case. Although the relationship was not material, the SEC stated that the relationship was "direct" and further that the firm's independence may be impaired. Given the staff's response, Arthur Andersen & Co. attempted to find a substitute for ERCI but was unable to find another firm with the requisite skills. Arthur Andersen & Co. was subsequently informed that they would not be retained for the engagement.

In a letter dated February 14, 1989, the SEC responded to the aforementioned petition regarding the proposed modification of Section

602.02.g (Katz 1989). The Commission concluded that even a financially immaterial prime or subcontractor arrangement may impair the appearance of auditor independence, and thus may cause financial statement users to question the auditor's independence.

On May 17, 1989, the Big 6 CPA firms⁴ collectively petitioned the SEC to consider changing their position regarding prime or subcontractor relationships (Arthur Andersen & Co. et al. 1989). The petitioners outlined certain safeguards in addition to the materiality standard proposed earlier. These safeguards corresponded directly with independence-related concerns expressed by the SEC (and as discussed at a December 19, 1988 public meeting). Of particular interest to this study is the safeguard related to staff separation.⁵ This safeguard specifies that the Big 6 firms would maintain a separation between the audit engagement team and individuals involved in a business relationship (i.e., prime or subcontractor arrangement). Separation could be realized by requiring audit and business-related engagements to be performed by different offices of a firm or by different divisions within an office. The SEC has not directly responded to this petition. Rather, the Commission has inferred that its present au-

³ Representatives of Big 6 CPA firms have stated their position that while independence is very important in audits, it may be overlapped in connection with consulting activity. For example, Larry Horner of KPMG Peat Marwick has stated that he does not know of any instances where such relationships have negatively influenced an audit. Therefore, he feels the SEC rules should be lessened somewhat, particularly if the amounts are immaterial (Cowan 1989).

⁴ Ernst & Whinney merged with Arthur Young to form Ernst & Young; Deloitte, Haskins & Sells merged with Touche Ross to form Deloitte & Touche. The designation "Big 8" has been changed to "Big 6" to reflect the six largest accounting firms in the world. Even though the petition process began with the eight largest CPA firms, throughout the paper the designation "Big 6" will be used.

⁵ The other safeguards suggested were that (1) the CPA firm and its audit client must not have a continuing business relationship; (2) no litigation should exist between the CPA firm and its client concerning the business relationship; and (3) the peer review process include a standard which requires peer review teams to test the CPA firms' compliance with these safeguards and materiality standard.

ditor independence policies should remain intact (*Accounting Today* 1994b; SEC 1994).

Given the reluctance of the SEC to respond favorably to the Big 6 collective petition, Arthur Andersen & Co., S.C. chose to submit an individual petition to the SEC. Their April 18, 1990 petition stated that the firm's unique structure should be taken into account in interpreting audit independence policies. The petition went on to say that the firm had, for a valid business purpose, undergone a major restructuring which left its consulting division (Andersen Consulting) as a separate partnership from its accounting division (Arthur Andersen & Co.). Therefore, it was argued that (immaterial) business relationships which Andersen Consulting might engage in would be indirect with respect to Arthur Andersen & Co., and should be allowed (Pitt 1990).

The SEC reviewed this submission and in a June 20, 1990 letter, responded to the arguments expressed by Arthur Andersen & Co., S.C. Edmund Coulson (1990), Chief Accountant of the Securities and Exchange Commission, accepted the firm's arguments and confirmed that business relationships (joint ventures and prime/subcontractor) between Andersen Consulting and an audit client of Arthur Andersen & Co. would be considered an indirect business relationship for purposes of applying the Commission's independence requirements. The result of this ruling is to place Arthur Andersen & Co., S.C. in a unique position (relative to other CPA firms) in that consulting arrangements with their audit clients are permitted (Blumenthal 1990; Moore 1990; Rankin 1990).

While the large CPA firms initially objected to this perceived competitive disadvantage, some firms are now considering creating a similar organizational structure. For instance, Deloitte & Touche is currently in the process of setting up their own separate international consulting entity (Berton 1995; *Public Accounting Report* 1994b, 1995a).

Research Questions

The overall purpose of this study is to identify and compare the relative effects on financial statement users' perceptions and decisions

of various situations in which consulting services are performed with audit clients. Accordingly, the approach is to consider various types of engagements that auditors perform with clients, and to compare them with each other, and with a control situation in which no arrangement exists. The Big 6 firms have argued that there is a difference in terms of whether a business relationship with an audit client is structured as a prime/subcontractor agreement versus a joint venture agreement. The SEC has equated these two relationships.

We also wanted to assess the CPA firms' role in the contracting relationship. Generally, contractual revenues from a project are distributed directly to the prime contractor who in turn allocates an agreed upon share to the subcontractor. To determine whether financial statement users are affected by the CPA's role, we specifically included a condition in which the CPA firm served as prime contractor and another condition wherein the CPA firm served as subcontractor. Accordingly, the first research question is:

Q₁: Does the existence or type of business relationship between a CPA firm and its audit client—prime/subcontractor, sub/prime contractor, or joint venture—affect financial statement users' perceptions of auditor independence, financial statement reliability, and investment decisions?

Throughout the petition process, the large CPA firms have emphasized that prime or subcontractor arrangements with audit clients do not impair auditor independence, regardless of materiality. However, they suggested that if there is any concern, a materiality standard could be used in evaluating the independence of an auditor with respect to its audit client with whom it has a prime or subcontractor arrangement. Without empirical evidence, the Commission concluded that even a financially immaterial prime or subcontractor arrangement may impair the appearance of auditor independence and, thus, may cause financial statement users to question auditors' independence. Because of this question concerning materiality, the second research question is:

Q₂: Does the existence or materiality of a prime/subcontractor business relationship between a CPA firm and its audit client—material or immaterial—affect financial statement users' perceptions of auditor independence, financial statement reliability, and investment decisions?

The CPA firms have proposed an additional condition whereby they would maintain a separation between the audit engagement team and individuals involved in a consulting engagement. This condition is designed to ensure the separation of those personnel involved in auditing a client and those who are working with the client in a prime or subcontractor capacity. Staff separation could be accomplished by assuring that the audit and consulting engagements are performed by different offices of the firm or by different divisions or teams within an office.

The SEC does not presently allow consulting personnel to perform an engagement *with* an audit client. However, the Commission has recently allowed Andersen Consulting to perform consulting engagements with Arthur Andersen & Co. audit clients, based on the unique (separate) relationship between the two partnership firms. The SEC ruling was so specific with regard to Arthur Andersen & Co., S.C. that it may be difficult for other CPA firms to obtain the same result. Consequently, the other CPA firms have objected to not being able to have the same non-audit relationship with an audit client. Given the relative importance of this issue, we examine financial statement user perceptions and decisions regarding staff separation. Our third research question is:

Q₃: Does the existence of a consulting engagement or the degree of staff separation between those performing the audit and those performing the consulting engagement—separate CPA firm divisions, separate firms, or combined CPA firm staff—affect financial statement users' perceptions of auditor independence, financial statement reliability, and investment decisions?

METHOD

We developed three designs corresponding to each of the three research questions set forth

in this study.⁶ For each research question, the factor related to the specific question was varied across treatment levels to make a specific design (see figures 1 and 2). The remaining factors were set at the level most consistent with present business relationships between CPA firm and audit client. Presently, business relationships are generally prime/subcontractor, immaterial in amount, and entail staff separation by division. Each subject was provided identical investment proposals, except that the involvement with consulting services performed with the audit client was systematically manipulated between groups. Because each individual only sees and replies to one level, identification of the exact nature of the manipulation is difficult to determine.

Subjects

Lowe and Pany (1995) utilized loan officers in their related study; we chose to use financial analysts in this study.⁷ Financial analysts represent an important financial statement user group that is directly involved with the securities regulated by the SEC. Financial analysts are frequently required to make predictions, forecasts and judgments on a wide variety of financial matters including corporate growth rates, bankruptcy risks, merger activity and security prospects (Mear and Firth 1990). Of particular importance is that financial analysts regularly deal with large, publicly traded companies regulated by the SEC. It is relationships between these large companies and

⁶ Ideally, a full factorial design would have been appropriate to assess the study's research questions. The design was not considered feasible due to: (1) problems crossing certain factors (particularly the control group), (2) difficulty in obtaining sufficient data (as pointed out by Schipper (1991)), and (3) cost considerations. For instance, a fully crossed design (even without the control group) would have required the use of 18 cells (3 types of business relationships × 2 materiality levels × 3 types of staff separation).

⁷ Many studies that have utilized financial statement users have focused their attention on both financial analysts and loan officers (i.e., Lavin 1976; McCaslin and Stanga 1986; Pany and Reckers 1987, 1988a; Schwartz and Reckers 1987). In many of these studies the responses of loan officers and financial analysts differed significantly. We were interested not only in how financial analysts assessed auditor independence directly, but also how it indirectly affected their investment judgments and decisions.

FIGURE 1
Experimental Design

<u>Group Number</u>	<u>Type of Business Relationship</u>	<u>Staff Separation</u>	<u>Material?</u>
Design 1—Type of Business Relationship			
1	Prime/Subcontractor	Division	No
2	Sub/Prime contractor	Division	No
3	Joint Venture	Division	No
7	None	NA	NA
Design 2—Materiality			
1	Prime/Subcontractor	Division	No
5	Prime/Subcontractor	Division	Yes
7	None	NA	NA
Design 3—Staff Separation			
1	Prime/Subcontractor	Division	No
4	Prime/Subcontractor	Firm	No
6	Prime/Subcontractor	None	No
7	None	NA	NA

their Big 6 auditors (and the effects of those relationships on investor perceptions of auditor independence) that have raised the concerns of regulators and Congress.

Obtaining relevant data from financial analysts has been problematic for researchers. Schipper (1991) discusses some of the inherent problems in obtaining data from financial analysts.⁸ In order to obtain relevant data requiring a large number of subjects from a wide variety of institutions, a significant portion of research with financial analysts (i.e., Lacey 1990; Robertson 1988; Schwartz and Reckers 1987) has been performed using mailed ques-

tionnaires. This same approach was followed in this study. Research instruments were mailed to 2,100 financial analysts. Subject names were obtained from a commercially prepared list of financial analysts from throughout the United States; 304 usable re-

⁸ Schipper (1991) outlines three specific problems in obtaining data from financial analysts. First, some firms do not allow their analysts to participate in questionnaires. Second, financial analysts are not required to have continuing education requirements and therefore do not gather periodically for meetings. Finally, researchers in accounting (and other areas) have not been able to convince financial analyst employers of the benefits of conducting academic research.

FIGURE 2
Questionnaire Forms

<u>Group Number (Designs included in)</u>	<u>Type of Business Relationship</u>	<u>Staff Separation</u>	<u>Material?</u>
1 (1,2,3)	Prime/Subcontractor	Division	No
2 (1)	Sub/Prime contractor	Division	No
3 (1)	Joint Venture	Division	No
4 (3)	Prime/Subcontractor	Firm	No
5 (2)	Prime/Subcontractor	Division	Yes
6 (3)	Prime/Subcontractor	None	No
7 (1,2,3)	None	NA	NA

sponses were obtained from two mailings.⁹ Table 1 summarizes the demographic background for the study's respondents. No demographic differences were found among the experimental groups. Further, our findings did not differ across demographic groups.

Financial analysts were mailed a set of materials consisting of (1) a cover letter, (2) a brief investment case scenario, (3) financial statements with selected ratios, and (4) a questionnaire. The research task required financial analyst subjects to evaluate information relating to a possible common stock investment. Subjects evaluated (1) CPA firm independence, (2) the reliability of the historical financial statements, and (3) investment decisions. Manipulation check questions were included to determine whether the subjects had conscientiously reviewed the information before replying.¹⁰

Case Information

The case was constructed using a combination of previous research (Pany and Reckers 1987, 1988a, 1988b), Robert Morris Associates (1990) industry data, Value Line (1990), and annual statement information for a publicly traded computer systems firm. The investment case scenario presented a computer systems company¹¹ in the process of expanding its domestic offices, as well as adding subsidiaries overseas. The company was described, in part, as a leading supplier of network-based distributed computing systems.

The information included three years' statements of earnings, statements of financial position, and summaries of changes in financial position, as well as one year of forecasted statements. The stock advisory report, constructed using information available from Value Line, included information on capital structure, market performance, dividends, earnings per share and annual rates of change in various accounts; a brief summary also described the nature of the company's operations (see appendix).

Independent Measures

Three independent measures—type of business relationship, materiality of the en-

agement, and degree of staff separation (structure)—were manipulated to address the research questions of the study. *Types* of business relationships between the CPA firm and the audit client were considered at three levels—CPA firm prime contractor, CPA firm subcontractor, joint venture—as well as a control group in which subjects were explicitly told that the CPA firm and the computer firm had no such business relationship. The control group, used in this and other designs, was used to test the overall contention that such services do not affect perceptions of independence, financial statement reliability, or investment decisions. We examine both a contracting and joint venture agreement due to the contention of the CPA firms (and contrary to the SEC's position) that these types of business relationships should be treated differently. We also assessed the CPA firm's role in the contracting process by including a condition in which the CPA firm served as a prime contractor and one in which it served as a subcontractor.

Materiality was tested at three levels—material, immaterial, and no services performed (the control group). The material amount is operationalized as “material to the CPA firm (approximately 12 percent of office revenues) as well as to the audit client (the computer company).” The immaterial amount is operationalized as “immaterial to the CPA firm (less than one percent of office revenues) as well as to the audit client.” The large CPA firms had proposed a level of materiality based on overall firm revenues, not office revenues (Arthur Andersen & Co. et al. 1988). Because

⁹ To encourage financial analysts to respond to our case questionnaire, the second mailing (accurately) stated we would contribute \$1 to a specified charity. The charity was paid accordingly.

¹⁰ After subjects had completed the above dependent measures, they were asked to, without looking back, indicate the level of consulting services which had been rendered. Subjects who missed the manipulation checks for a specific treatment were deleted from the study. Also, three responses were excluded from further analysis due to their incomplete nature.

¹¹ According to Mednick (1990), CPA firms have a growing need to enter into prime and subcontractor agreements with other businesses that offer requisite skills. This need is most apparent in the design and installation of computerized information systems.

materiality would most likely be considered at the individual office level, it was addressed at that level.¹²

Staff separation (structure) was examined at four levels—separate divisions, separate firms, combined staff, and no services provided (control group). The separate divisions level of this measure depicts the traditional CPA firm organization in which a separate audit and consulting division exist. The separate firm level was designed using *verbatim* language from the SEC's reply to Arthur Andersen & Co., S.C. as to why the firm should be allowed to maintain such relationships (Coulson 1990). This descriptive passage is believed to summarize the relationship between Arthur Andersen & Co. and Andersen Consulting. The combined staff level states that both audit and consulting personnel work together on a consulting project.

Dependent Measures

The dependent measures selected for this study directly relate to its stated purpose. That is, to assess financial statement users' perceptions of auditor independence and financial statement reliability, as well as investment decisions when a CPA firm has performed consulting engagements with the audit client. We reasoned that in situations in which less auditor independence is perceived, lower financial statement reliability would be assessed which would lower financial analysts' expectations related to the financial performance of a company. We addressed *auditor independence* without explicitly requiring the respondent to consider the business relationship between the CPA firm and the audit client. In this manner we could introduce a control group that did not include a business relationship. Specifically we asked:

How confident are you that the CPAs are independent in performing the audit?

No Confidence 0...1...2...3...4...5...6...7...8...9...10 Extreme Confidence

We included the following two questions to assess perceptions about *financial statement reliability*:

How confident are you that the financial statements are free from *unintentional* (al-

ternatively, *intentional*) misstatements or omissions?

These measures address whether any perceived decreases in auditor independence also results in perceived decreases in financial statement reliability. They were also measured using an 11-point scale as presented above.

Two *investment decisions* were assessed at the beginning of the questionnaire as follows:

1. Expected relative price performance of the stock (over the next 12 months) and,
2. Desirability of stock purchase (at a set price) for a client seeking intermediate to long-term stock appreciation.

It is expected that in situations in which less auditor independence and financial statement reliability is perceived, the investment decisions are likely to be altered. These two measures relate to judgments that analysts make in forming buy/sell and hold recommendations to clients. For example, Value Line scores stocks on timeliness (expected relative price performance for the next 12 months), as well as provides information (e.g., company's financial strength, price growth persistence, target prices and forecasts) to assess intermediate to long-term appreciation. Eleven-point response scales, similar to the one presented earlier, were used.

RESULTS

Design 1

Design 1 (see figure 1) examines whether the *existence* and *type*¹³ of business relation-

¹² For instance, Arthur Andersen & Co. revenues exceeded 3.3 billion dollars during the past year (*Public Accounting Report* 1995c). Using a "rule of thumb" proposed by the AICPA (1993, para. AAM 3140.20) for financial statement audits of materiality at 1.0 to 1.5% of revenues, an engagement for Arthur Andersen would need to be between 33 and 49.5 million dollars to reach materiality.

¹³ We chose to examine the existence and type of business relationship between the CPA firm and audit client in one design. Alternatively we could have examined existence and type separately by using a linear contrast that averages all three types of business relationships and compares that average to the control group with no business relationship. Results would be essentially the same under this alternative approach.



TABLE 1
Financial Analysts
Demographic Information

	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7	Total
Sample Size	38	37	47	42	48	44	48	304
N	300	300	300	300	300	300	300	2100
Response Rate	12.7%	12.3%	15.7%	14.0%	16.0%	14.7%	16.0%	14.5%
Age	41.2 (13.2) ^a	43.7 (11.7)	41.5 (12.6)	42.5 (13.0)	44.0 (13.9)	43.6 (11.8)	45.2 (12.1)	43.2 (12.7)
Experience	13.1 (10.4)	15.2 (10.8)	14.2 (11.2)	15.4 (12.0)	15.1 (11.5)	14.1 (10.3)	17.8 (10.9)	15.0 (10.9)
Percentage of Job-Buy/Sell Recommend	45.4 (35.3)	48.3 (35.3)	45.3 (37.1)	43.4 (35.5)	49.6 (36.0)	52.4 (37.7)	47.2 (38.4)	46.9 (36.3)
Title	16	11	13	19	13	9	7	13
Investment C.	35	40	43	37	42	42	42	38
Portfolio Mgr.	14	16	13	17	13	19	5	14
Market Analyst	5	3	9	5	6	2	9	5
Dir. of Research	30	30	22	22	26	28	37	30
Other	100%	100%	100%	100%	100%	100%	100%	100%
Degrees	0	3	2	3	2	0	0	2
Less than Bach.	23	27	26	35	24	34	26	28
Bachelor	71	67	66	57	68	62	70	65
Master	3	0	2	5	6	2	2	3
Doctoral	3	3	4	0	0	2	2	2
Law	100%	100%	100%	100%	100%	100%	100%	100%
Designations	78	86	86	93	82	75	84	84
CFA	22	9	11	7	15	14	11	12
CPA	0	5	3	0	3	11	5	4
CFP	100%	100%	100%	100%	100%	100%	100%	100%

^aNumbers in parentheses represent standard deviations. The designation is used throughout this study.

ship between a CPA firm and its audit client affect financial statement users' perceptions of auditor independence, financial statement reliability, and investment decisions. One-way analyses of variance (ANOVAs) were conducted to analyze the data.¹⁴ The existence and type of business relationship (prime/subcontractor, joint venture, sub/prime contractor, and no business relationship) served as the single independent measure. Results revealed no significant one-way univariate ANOVAs (as shown in table 2). These results indicate that the existence of an immaterial business relationship between a CPA firm and audit client did not affect financial statement users' perceptions regarding auditor independence, financial statement reliability and investment decisions. Similarly, the type of business relationship had no effect on responses. It is important to note that these results were obtained in spite of the fact that the business relationship independent variable was made salient to subjects and further that only independence in appearance (and not fact) was assessed.

Design 2

Design 2 examines whether the *materiality* of a prime/subcontractor business relationship between a CPA firm and its audit client affects financial statement users' perceptions of auditor independence, financial statement reliability and investment decisions. One-way analyses of variance (ANOVAs) were performed with materiality (material, immaterial, and no business relationship) serving as the independent measure. Table 3 reveals that the independence and unintentional misstatements measures were significant ($F = 5.79$, $p = .004$ and $F = 3.40$, $p = .037$). In addition, both of the investment measures were significant ($F = 3.76$, $p = .026$ and $F = 3.67$, $p = .028$). Subsequent analysis using Duncan multiple comparisons indicate that the immaterial

¹⁴ Two-tailed tests were conducted given that we formulated research questions and not directional hypotheses. Various tests of the assumptions underlying each of the ANOVAs used in this study were conducted and found to be satisfactory. Kruskal-Wallis non-parametric tests revealed essentially the same results as the ANOVAs.

TABLE 2
Design 1—Business Relationships
Treatment Means (Standard Deviations)

Group No.	Bus. Relationship ^a	Independence ^b	Fin. Stmt. Reliability ^c		Investment & Return	
			Unint.	Intent.	12 month ^d	Long-Term ^e
1	Prime/Sub	6.36 (2.67)	6.61 (2.25)	6.75 (2.41)	5.26 (1.93)	5.08 (1.81)
2	Sub/Prime	6.05 (2.46)	5.63 (2.42)	6.16 (2.38)	4.64 (1.81)	4.50 (1.96)
3	Joint Venture	6.00 (2.65)	6.61 (2.32)	6.30 (2.57)	4.81 (1.83)	4.19 (2.04)
7	Control	6.46 (2.13)	5.46 (2.17)	6.35 (1.99)	4.38 (1.91)	4.26 (2.24)

No group means were significantly different at .05 significance level.

^aThe other factors were set at the level most consistent with present business relationships—immaterial in amount and staff separation by division.

^bMeasured on an 11-point scale anchored on 0 for No Confidence to 10 for Extreme Confidence.

^cMeasured on the same scale as above.

^dMeasured on an 11-point scale anchored on 0 for Lowest to 10 for Highest.

^eMeasured on an 11-point scale anchored on 0 for Extremely Undesirable to 10 for Extremely Desirable.

group mean was significantly higher than the material group mean for the independence measure (6.38 to 4.98), the unintentional misstatements measure (6.79 to 5.56), and for both of the investment and return measures (5.25 to 4.05 and 5.15 to 3.77).

These results consistently support the conclusion that the materiality of a prime/subcontractor business relationship between a CPA firm and its audit client significantly affected financial analysts' perceptions. Specifically, financial analysts perceived greater CPA independence to exist with an immaterial as compared to a material business relationship. Greater independence was also revealed through higher financial statement reliability and investment and return decisions associated with an immaterial as opposed to a material business relationship. Also important is the finding that immaterial relationships do not generally decrease investor perceptions when compared to a control group with no such relationship. This result sug-

gests that a business relationship has to be material before it influences subjects' independence perceptions.

Design 3

Design 3 examines whether *staff separation* between those performing the audit and those performing the consulting engagement affects financial statement users' perceptions of auditor independence, financial statement reliability and investment decisions. One-way analyses of variance (ANOVAs) were conducted to analyze the data. The degree of staff separation (separate divisions, separate firms, combined staff, and control group) served as the independent variable. Table 4 indicates that both of the investment dependent measures, 12-month performance and long-term appreciation, were significant ($F = 3.82$, $p = 0.012$ and $F = 2.89$, $p = 0.038$, respectively) with the unintentional misstatement's measure being marginally significant ($F = 2.48$, $p = 0.064$). None of the other de-

TABLE 3
Design 2—Materiality
Treatment Means (Standard Deviations)

Group No.	Bus. Relationship ^a	Fin. Stmt. Reliability ^c			Investment & Return	
		Independence ^b	Unint.	Intent.	12 month ^d	Long-Term ^e
1	Immaterial	6.38 (2.56)	6.79 (2.04)	6.79 (2.34)	5.25 (1.84)	5.15 (1.81)
5	Material	4.98 (2.23)	5.56 (2.62)	5.73 (2.37)	4.05 (1.73)	3.77 (2.04)
7	Control	6.46 (2.13)	5.46 (2.17)	6.35 (1.99)	4.38 (1.91)	4.26 (2.24)
Significance Levels (p-values)		.004	.037	.123	.026	.028
Significant Differences		I,C> M	I> M,C	None	I> M	I> M

^aThe other factors were set at the level most consistent with present business relationships—prime/subcontractor and staff separation by division.

^bMeasured on an 11-point scale anchored on 0 for No Confidence to 10 for Extreme Confidence.

^cMeasured on the same scale as above.

^dMeasured on an 11-point scale anchored on 0 for Lowest to 10 for Highest.

^eMeasured on an 11-point scale anchored on 0 for Extremely Undesirable to 10 for Extremely Desirable.

pendent measures reached statistical significance. To isolate the significant differences among the factor levels, Duncan multiple comparisons were performed. This analysis indicated that for the 12-month performance measure, the separate division's group mean (5.90) was significantly higher than the separate firms (4.47), combined staff (4.58), and control group (4.38) means. Likewise, for the long-term appreciation measure, the separate division's group mean (5.74) was significantly higher than the separate firms (4.26), combined staff (4.19), and control group (4.26) means.

These results suggest that for the measures elicited, a separate firms structure (Arthur Andersen & Co., S.C.) is not perceived more positively than a separate divisions structure. These findings indicate that finan-

cial analysts tend to give higher assessments for investment decisions when responding to a scenario in which the audit and management services staff are in separate divisions, as opposed to alternative arrangements. We conjecture that the association of the CPA firm with their client may have affected investment decisions irrespective of independence concerns. That is, a client firm may have been perceived to have enhanced financial strength when associated with a CPA firm with separate divisions. Financial analysts may have perceived a CPA firm to be larger and more established when the firm's organization has separate divisions (audit and management services) as compared to a CPA firm that has an affiliation with a consulting firm. This is the only study that has used an investment context to examine auditor independence in

TABLE 4
Design 3—Staff Separation
Treatment Means (Standard Deviations)

Group No.	Bus. Relationship ^a	Independence ^b	Fin. Stmt. Reliability ^c		Investment & Return	
			Unint.	Intent.	12 month ^d	Long-Term ^e
1	Separate Divisions	6.05 (2.33)	6.60 (1.76)	6.55 (2.24)	5.90 (1.59)	5.74 (1.24)
4	Separate Firms	6.03 (2.36)	6.37 (1.91)	6.60 (2.25)	4.47 (1.60)	4.26 (2.06)
6	Combined Staff	5.29 (2.81)	5.59 (1.97)	6.13 (2.63)	4.58 (1.82)	4.19 (2.12)
7	Control	6.46 (2.13)	5.46 (2.17)	6.35 (1.99)	4.38 (1.91)	4.26 (2.24)
Significance Levels (p-values)		.217	.064	.842	.012	.038
Significant Differences		None	None	None	SD> SF,CS,C	SD> SF,SF,C

^aThe other factors were set at the level most consistent with present business relationships—prime/subcontractor and immaterial in amount.

^bMeasured on an 11-point scale anchored on 0 for No Confidence to 10 for Extreme Confidence.

^cMeasured on the same scale as above.

^dMeasured on an 11-point scale anchored on 0 for Lowest to 10 for Highest.

^eMeasured on an 11-point scale anchored on 0 for Extremely Undesirable to 10 for Extremely Desirable.

business relationships *with* their audit clients. Future research might examine this issue further to corroborate (or contradict) our results.

LIMITATIONS AND CONCLUSIONS

The primary objective of this study was to assess financial statement users' perceptions of auditor independence and financial statement reliability as well as investment decisions when a CPA firm has performed consulting engagements *with* their audit client. Specifically, this study examined the effects of the existence and type of business relationship between CPA firms and their audit clients, as well as the effects of the materiality of the engagement and the degree of staff separation. Before discussing the results of the study, it is appropriate to note certain limitations. First, there is no objective measure to determine the realism of the case instrument. The case instrument was based on Value Line and the financial statements of a publicly traded computer systems firm. However, it is possible that some useful information was omitted in order to keep the case to a reasonable length. The selection of variables may also have affected the results.

Second, although the response rate was only 14.5%, it is similar to related studies using financial analysts.¹⁵ It is very difficult to determine how nonrespondents would have replied to the case instrument. Oppenheim (1966) showed that nonrespondents have similar characteristics to those who reply to second requests. Relying on this concept, the responses of the first mailing were compared to those of the second mailing. This method has become standard practice for studies that have utilized mailed questionnaires (i.e., Geiger 1992; Lacey 1990; Miller et al. 1993; Strawser 1994). No significant differences for the dependent measures as well as the other demographic variables were noted. In addition, the response rates as well as the demographical measures were relatively constant across the experimental groups (see table 1). Since the treatments were assigned randomly to the groups, in the long run, nonresponses will be distributed over all groups. Thus, there is a chance that nonresponse bias, if it exists, may

equally affect each group. If it does, then the conclusions should be unaffected.

Subject to these limitations, the results of this study provide insights into the effects of CPA performance of consulting engagements with audit clients, particularly when considered in combination with the earlier study by Lowe and Pany (1995). First, consistent with the findings of the earlier study, the results suggest that the existence and type of business relationship (prime/subcontractor, sub/prime contractor, or joint venture) between CPA firm and audit client, do not appear to affect financial statement users' perceptions of auditor independence, financial statement reliability, and investment decisions. The results do not support the Big 6 firms' contention that prime or subcontractor relationships are distinguishable from joint ventures. In addition, whether the CPA firm was the prime or subcontractor in the business relationship did not appear to affect perceptions or decisions. Yet the fact that the means do not differ significantly from a control group would seem, for the variables we tested, consistent with the AICPA position that such immaterial arrangements are acceptable to investors.

Second, these results suggest that the materiality of a prime/subcontractor business relationship is an important factor when assessing independence issues between a CPA firm and audit client. Financial analysts perceived that greater CPA independence, financial statement reliability, and investment decisions to exist with either no business relationship or an immaterial one as compared to a material business relationship. Lowe and Pany (1995) only distinguished between immaterial and material business relationships, finding that material relationships in general had more of an effect on the dependent measures than did the imma-

¹⁵ The following represent some studies that have utilized financial analysts as subjects along with their related response rates: Pany and Reckers (1987), 11 percent; Lacey (1990), 11 percent; Robertson (1988), 17 percent; Schwartz and Reckers (1987), 19 percent; McCaslin and Stanga (1986), 19 percent; and Bailey (1981), 20 percent.

terial ones. Here we extend those results by showing that, in general, the immaterial level of services does not differ from the control group with no services. Of most importance, the results were particularly strong for the independence perceptions. The SEC has stated that even a financially immaterial prime or subcontractor arrangement may impair the appearance of auditor independence. Our results question this assertion since the immaterial condition as compared to the control group (for which no services were provided) resulted in no statistically significant differences. Thus, our results suggest that the appearance of independence may not be impaired when a CPA firm has an immaterial business relationship with their audit client.

Third, staff separation significantly affected financial analysts' perceptions such that marginally higher reliability assessments and higher investment decisions were elicited when the consulting and audit divisions are separate as opposed to when they are combined. The results between the separate divisions and separate firms (Arthur Andersen & Co., S.C.) were surprising, but nevertheless informative. We had expected that the different firms condition would be perceived to have greater independence than the separate division condition. This would have been consistent with the SEC's perception and subsequent decision to allow Andersen Consulting to perform consulting engagements with Arthur Andersen & Co. audit clients. However, financial analysts expressed insignificant differences in their independence responses with regard to the separate firm's condition as compared to the separate divisions type of arrangement. It is important to note that the wording of the separate firms condition was taken *verbatim* from comments from the SEC's reply to Arthur Andersen & Co., S.C. regarding rea-

sons why the firm should be allowed to maintain such relationships.¹⁶ Because we only included respondents who correctly replied to the manipulation check, it would seem that the manipulation was noticed.

This result is consistent with the unexpected results obtained by Lowe and Pany (1995). In *combination*, the results of these two studies indicate that for two different financial statement user groups, having the consulting engagement performed by a separate division is perceived to be as acceptable (in terms of independence) as having a separate firm perform the services. It appears that while Arthur Andersen & Co., S.C. was careful in separating its audit and consulting partnerships, financial statement users were not able to (directly) infer increased independence by this arrangement. Yet it should be noted that the SEC allowed Arthur Andersen & Co., S.C. to operate with this unique relationship without first researching this issue or asking for comment.

In conclusion, the Big 6 CPA firms believe that they are able to maintain audit independence when performing consulting engagements with their audit clients. While the AICPA allows such engagements as long as they are immaterial, the SEC prohibits them. This study suggests that with a materiality standard, the appearance of independence may not be impaired when CPA firms perform consulting engagements with their audit clients. Accordingly, the SEC might consider the proposals as set forth by the CPA firm petitioners.

¹⁶The *actual* wording of the separate firms (Arthur Andersen & Co., S.C.) condition was as follows, "The consulting firm which performs these systems services is a *separate and distinct legal entity* operating independently of the CPA firm in terms of capital, client base, management employees, and overall influence."

APPENDIX
Compusystems Corporation Stock Advisory Report¹

Capital Structure			EPS Per Quarter				
Total Long Term Debt	\$ 82.3 mil		Q1	Q2	Q3	Q4	
Due in 5 years	120.0 mil	1988	.25	.30	.36	.46	1.37
Long Term Interest	7.4 mil	1989	.41	.50	.49	.59	1.99
Leases, Uncapitalized		1990	.42	.30	.30	.38	1.40
Annual Rentals	23.2 mil						
Pension Liability	None						
Preferred Stock	None						
Common Stock	109 mil sh.						
			Quarterly Dividends				
			Q1	Q2	Q3	Q4	
		1988	.025	.025	.025	.025	.10
Beta	1.55 (1.00 = market)	1989	.025	.025	.025	.025	.10
		1990	.025	.025	.025	.025	.10
Annual Rates (% changes)			Market Performance				
	Past	Past					
	10 years	5 years					
Sales	13.5	12.5	Recent Price			\$15	
Cash Flow	12.5	19.0	P/E Ratio			11.5	
Earnings	11.0	34.0	Relative P/E Ratio			.92	
Dividends	8.0	0.0	Dividend Yield			.7%	
Book Value	14.5	12.0					

¹ The above information (other than market performance measures) is based on Compusystem's financial statements which have been audited by a large international Big 6 CPA firm. The CPA firm has always issued a "clean" unqualified opinion. The only other relationship between the CPA firm and Compusystems has been several individual projects to develop improved internal controls for mutual clients. The CPA firm designs the systems (as a *prime contractor*) and subcontracts software development and client training responsibilities to Compusystems. The CPA firm is paid directly by the mutual client for total systems fees. The CPA firm then pays Compusystems its share of the systems fees. The amounts involved are *material* to the CPA firm (approximately 12 percent of office revenues) as well as to Compusystems. The CPA firm's staff which performs these systems services is in the management services division which is *separate* from the audit division.

Compusystems Corporation is a publicly traded corporation (NYSE) with products distributed throughout 76 domestic and 44 foreign sales and service offices. Compusystems Corporation is a leading supplier of network-based distributed computing systems, including work stations, servers, the UNIX operating system and productivity software. The systems are designed under an "open systems" philosophy which enables hardware and software from many different suppliers to be linked and thus be compatible. Research and development continues to surpass the computer industry average as other vendors move to embrace open systems.

In the recent past, Compusystems Corporation has relied on many partner alliances such as AT&T, Xerox, Unisys, Fujitsu and the aforementioned Big 6 CPA Firm to advance its goals and technology. The corporation envisions much of its future growth to be linked to these ventures in addition to expanding its sales and service organizations. Compusystems Corporation is in the process of adding several new domestic field offices and three new European subsidiaries to provide additional sales, services and marketing support. To finance its growth objectives, Compusystems intends to increase long-term debt and to rely on its cash flow to service its increased obligations. The balance sheet should not be overly strained by capital needs in the near future.

The historical financial information has been abstracted from the annual audited financial statements of Compusystems. The financial statements have been audited by a large international Big 6 CPA firm; the CPA firm has not been associated with the forecasts. This same CPA firm also acts as prime contractor with Compusystems on individual projects. The contract revenues are considered material. The CPA firm's staff which performs these systems services is in the management services division which is separate from the audit division.

STATEMENT OF FINANCIAL POSITION

As of September 30 (Dollars in Thousands)	Forecast —1991—	—1990—	—1989—	—1988—
Cash	420,000	496,111	456,492	390,427
Accounts Receivable (Net)	659,000	580,640	503,062	416,820
Inventory	478,000	421,254	403,847	192,012
Other Current Assets	194,500	171,608	120,568	179,010
TOTAL CURRENT ASSETS	1,751,500	1,669,613	1,483,969	1,178,269
Fixed Assets (Net)	713,000	533,709	412,382	275,948
Other Noncurrent Assets	69,500	30,344	34,512	53,321
TOTAL ASSETS	2,534,000	2,233,666	1,930,863	1,507,538
Notes Payable—Short Term	37,000	30,936	36,870	46,540
Current Maturities—Long Term Debt	21,500	12,403	12,741	12,383
Accounts Payable	223,000	218,693	217,046	159,449
Accrued Liabilities	583,100	563,184	416,653	306,548
TOTAL CURRENT LIABILITIES	864,600	825,216	683,310	524,920
Long Term Debt	145,000	87,085	95,305	99,056
Deferred Income Taxes	149,400	145,376	141,427	117,856
Net Worth	1,375,000	1,175,989	1,010,821	765,706
TOTAL LIABILITIES AND NET WORTH	2,534,000	2,233,666	1,930,863	1,507,538

STATEMENT OF EARNINGS

For the Year Ended September 30 (Dollars in Thousands)	Forecast —1991—	—1990—	—1989—	—1988—
Sales Revenue	2,301,600	2,101,121	1,801,807	1,505,160
Costs of Goods Sold	1,348,100	1,269,989	968,555	825,918
Gross Profit	953,500	831,132	833,252	679,242
Operating Expenses	699,000	614,013	508,612	427,237
Other Income and Expenses	39,500	38,053	36,393	14,980
Income Before Taxes	294,000	255,172	361,033	266,985
Taxes	119,000	102,200	137,700	121,000
Net Income	175,000	152,972	223,333	145,985

**RATIOS AND
OTHER INFORMATION**

	Forecast —1991—	—1990—	—1989—	—1988—
Change in Net Working Capital	42,503	43,738	147,310	280,534
Funds Provided by Operations	210,000	199,964	367,423	205,030
Current	2.03	2.02	2.17	2.24
Quick	1.25	1.30	1.40	1.54
Sales/Receivables	3.49	3.62	3.58	3.61
Cost of Sales/Inventory	2.82	3.01	2.40	4.30
Fixed Assets/Net Worth	.52	.45	.41	.36
Debt/Net Worth	.84	.90	.91	.97
% Profit Before Taxes/Total Assets	.11	.11	.19	.18
Sales/Total Assets	.91	.94	.93	1.00

QUESTIONNAIRE

1. Given the information presented:
 - a. Rate this company's expected relative price performance (over the next 12 months).
 Lowest 0.....1.....2.....3.....4.....5.....6.....7.....8.....9.....10 Highest
 - b. Rate the desirability of the purchase of common stock of this company, at \$15 per share, in your role as a financial analyst advising a client seeking intermediate to long-term stock appreciation.
 Extremely Undesirable 0....1....2....3....4....5....6....7....8....9....10 Extremely Desirable
2. How confident are you that the financial statements are free from *unintentional* misstatements or omissions?
 No Confidence 0.....1.....2.....3.....4.....5.....6.....7.....8.....9.....10 Extreme Confidence
3. How confident are you that the financial statements are free from *intentional* misstatements or omissions?
 No Confidence 0.....1.....2.....3.....4.....5.....6.....7.....8.....9.....10 Extreme Confidence
4. How confident are you that the CPAs are independent in performing the audit?
 No Confidence 0.....1.....2.....3.....4.....5.....6.....7.....8.....9.....10 Extreme Confidence
5. What is your age? _____ Years experience as a financial analyst? _____
6. Select one category that best describes your professional role:

(a) Investment Counselor	(d) Director of Research
(b) Portfolio Manager	(e) Other (Describe) _____
(c) Stock Market Analyst	
7. Degrees (circle): NONE BACHELOR'S MASTER'S DOCTORATE LAW
8. Designations (circle): CFA CPA CFP
9. What percentage of your job is devoted to making buy/sell recommendations? _____ %
10. Formal accounting education completed? 1 course 1-3 courses 3+ courses

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