

THE IMPACT OF AUDITOR'S INDEPENDENCE ON AUDITOR'S PERCEPTION IN COLOMBO DISTRICT

S. M. S. L. Bandara^{1,*} and C. T. Gamage²

*^{1,2}Department of Accountancy of Finance, Faculty of Management Studies, Rajarata
University of Sri Lanka, Mihintale, Sri Lanka*

*Corresponding author (email: shanika95banadara@gmail.com)

INTRODUCTION

An audit's basic concept is independence. Many studies have been able to establish a basic standard for assessing an auditor's independence based on what an appropriate and qualified third party would deem acceptable (Wines, 2012). When auditors can perform with objectivity, impartiality, and independence from any conflicts of interest, then there is, in fact, independence. Identifying significant differences between auditors' and clients' perceptions of the auditor's independence in the circumstances involving the joint supply of audit and non-audit services has significant implications. The constantly evolving economic environment in Sri Lanka raises concerns about auditors' independence. The audit had a significant role to play in developing and improving the world economy and companies. (Al-Khaddash et al., 2013). The study's objective is to examine specific factors that impact auditors' independence from the Colombo district audit firms. The size of audit firms, the level of competition in the audit service market, the audit firm's tenure, and the size of audit fees, audit committees, and the auditor's perception are among the independent variables, and the auditor's perception is the dependent variable considered in this study. Larger audit firms are often better suited to resist management pressure. The level of competition in the external audit market is called audit market competition. It has been suggested that audit tenure, the number of continuous years or the amount of time the audit firm (auditors) has audited the client, impacts the risk of losing an auditor's independence (Baker et al., 2009). Audit fees are the amount firm's reward to their auditors to confirm the firm's consolidated accounts. An audit committee is a component of the board of directors of a firm whose responsibilities include assisting the auditors in maintaining their objectivity toward management. Through the use of a 150 survey questionnaire, a method of quantitative research was used to carry out the study. Although many of these sorts of studies are conducted around the country, there are few in the Sri Lankan context, which leads to this study (Abeygunasekera, 2011).

By empirically examining how auditors and users perceive Auditors' Independence, the current study sought to investigate the appearance standard and identify the nature of Auditors' Independence in Sri Lanka while adding to the body of knowledge regarding the factors that may threaten auditor independence and the factors that could strengthen auditor independence specifically in the Sri Lankan context. It is well known that developing nations like Sri Lanka, which also face problems with auditor independence, lack the study on this complicated matter. By identifying the factors determining external auditors' independence concerning audit firms in Sri Lanka and filling the effects total, this research will be helpful to the Sri Lankan government, business organizations, and audit firms. This will allow the relevant parties to improve the quality of financial information. The results of this study will give users

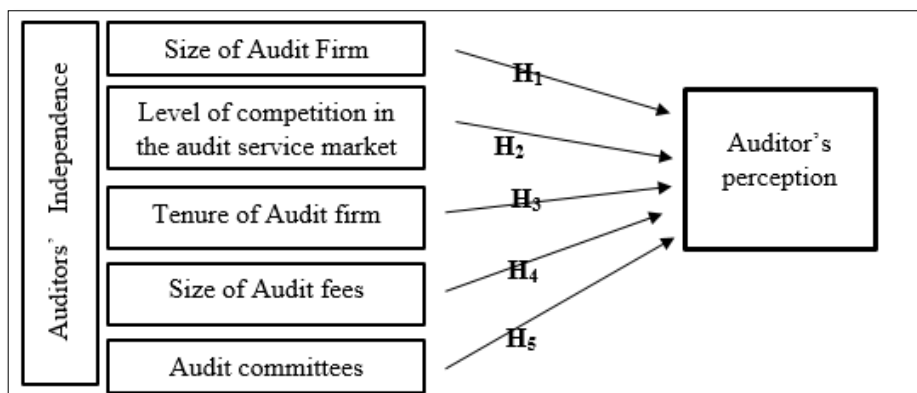
a better knowledge of the variables that affect auditor independence in Colombo district audit firms. Since the trustworthiness of financial information significantly depends on auditors' independence, they must preserve their independence and offer high-quality auditing. The accuracy of financial information will suffer without independent auditors, which might be harmful to the accounting profession in general. Furthermore, the study was used to determine how consumers of financial statements perceive auditor's independence, which can then be used to inform the standards and policies that auditors should follow to reduce the concerns arising from the perceived auditor's independence. It is, therefore, vital that auditors maintain their independence and provide a high quality of auditing. This protects the integrity of financial information, which is crucial for the prevention of corporate scandals, the continued existence of their profession, and the growth of a robust financial and capital market (Baker et al., 2009). "If an auditor is not independent, one would presume that the auditing is a waste of time and that the figures in the financial statements may be meaningless."

In recent years, media opinions on corporate scandals have tended to focus disproportionately on the question of auditor independence. These accounting crises had an inverse impact on the public 's opinion of auditors. More significantly, the issues related to independence are putting the survival of audit firms of all sizes, and it can destroy the accountancy profession in general (Baker et al., 2009). Public trust in audit reports and the auditing profession depends on auditor independence. Users of audit reports need to trust the auditors' objectivity and integrity. Without explicit independence for auditors, the auditing profession is of insufficient significance. This study examines factors that impact auditors' independence in Colombo district audit firms.

METHODOLOGY

The study developed the following conceptual framework (Figure 1) after reviewing the extant literature, followed the deductive research principles, and adopted a quantitative research method. Figure 1 illustrates the six variables' impact and auditors' independence.

Figure 1 Conceptual Framework



Based on the above conceptual Framework, H₁, H₂, H₃, and H₅ variables significantly impact the auditor's perception, and H₄, there is no significant impact on audit fees that significantly

impacts the auditor's perception. This study's population is audit firms with 204 external auditors registered under the Chartered Institute of Sri Lanka in the Colombo District. One hundred fifty respondents were employed in the research, and data were collected using a random sample technique. Data from respondents was collected using a survey questionnaire. The SPSS was primarily used to examine the data gathered. Various analysis methods were used to analyze the study findings and results after all the gathered data were entered into an SPSS file. Regression analysis, correlation analysis, and reliability and validity tests are then performed as statistical tools to examine the data. Correlation and regression analyses were conducted to fulfill the research objectives. The multiple regression analysis's findings are being used to evaluate the hypotheses.

RESULTS AND DISCUSSION

Cronbach's Alpha values range from 0 to 1, and higher values indicate greater reliability. Here, it can be pointed out that the value of all the independent variables (size of the audit firm, level of competition in the audit service market, tenure of the audit firm, size of audit fees, audit committees) and the dependent variable (auditor perception) is more significant than 0.7 and all variables are reliable. The Kaiser- Meyer-Olkin (KMO) Measure and Bartlett's Test, respectively, were used to determine that the sampling was adequate and that the data were spherical. Both variables' KMO coefficients are more than 0.6, and their Sig. Values are lower than 0.05. Results also showed enough correlations between the variables to move on. The sampling accuracy of this investigation is essential. According to Table 1 descriptive analysis, all the dependent and independent variables' means are around 4. As a result, the Colombo District auditors agreed with the auditor's independence and the auditor's perception as mean values are more than 3.

Table 1 Descriptive Statistics

	Mean	SD	Skewness
SAF	4.45	0.54	-2.58
LCASM	4.54	0.49	-1.66
TAF	4.72	0.37	-2.21
SAFs	4.56	0.43	-2.77
AC	4.51	0.53	-2.73
AP	4.46	0.56	-2.09

According to Table 2 correlation analysis, all independent variables had shown a positive and significant correlation with the auditor's perception. The size of the audit fees has weak relationship between auditor's perceptions.

Table 2 Correlation Analysis for Auditor's Independence and Auditor's Perception

	SAF	LCASM	TAF	SAFs	AC	AP
SAF	1					
LCASM	.668**	1				
TAF	.633**	.640**	1			
SAFs	.220**	.162*	.229**	1		
AC	.971**	.643**	.620**	.214**	1	
AP	.771**	.890**	.677**	.209*	.700**	1

*Correlation is significant at the 0.05 level, **Correlation is significant at the 0.01 level.

Table 3 shows the results of the regression.

	Unstandardized Coefficients			
	B	Std. Error	t	Sig.
(Constant)	-.636	.233	-2.733	.007
SAF	1.112	.125	8.868	.000
LCASM	.714	.046	15.677	.000
TAF	.136	.059	2.313	.022
SAFs	.029	.036	.805	.422
AC	-.857	.124	-6.907	.000

According to Table 3 regression analysis, there was no significant impact on the size of audit fees and auditor's perception (significant value 0.422) in Colombo district audit firms. Baker et al. (2009) found no significant impact on the size of audit fees and auditor's perception. Baker et al. (2009) there is a significant impact on the size of audit firms (significant value-0.000) and the level of competition in the audit service market (significant value – 0.000) in the Colombo district. This study significantly impacts the Tenure of the audit firm (significant value – 0.022). However, Abeygunasekera (2011) and Baker et al. (2009) found no significant impact on the Tenure of audit firms. Audit committees significantly impact this study (significant value - 0.00), and Abeygunasekera (2011) also found that significant impact on auditor's perception.

Table 4 Model Summary

R	R ²	Adjusted R ²	Std. Error
0.943	0.889	0.885	0.191
F 230.524, Sig 0.000			

The coefficient R² indicates the unit variation in the dependent variable that is explained by or recognized by all independent variables. Table 4 indicates R² was 88.9% and adjusted R² was 88.5%, which reflects the explanatory power for independent variables to explain about 88.5% of the changes in the dependent variable Auditor's perception. (Al-Khaddash et al., 2013). Generally, a higher R² value indicates a better fit for the model. Regression's sum of squares is 42.088, and table 4.12's significance value is 0.000, less than 0.05. (P-value). Table 3 shows that the study's independent variables positively impact how the study's dependent variable is determined (Al-Khaddash et al., 2013).

CONCLUSIONS AND IMPLICATIONS

This study shows the impact of four variables on auditor's independence and audit firm's independence on auditor's perception of Colombo district audit firms: The impact of auditor independence on auditor perception was not given much attention by scholars in the Sri Lankan context, while it was found that worldwide descriptions were used. This study assessed the impact of the size of audit firms, the level of competition in the audit service market, the audit firm's tenure, and the size of audit fees and audit committees received by an audit firm. The results of this study show that the Colombo district auditors strongly agreed that the size

of audit firms, the level of competition in the audit services market, audit firm's tenure, and audit committees are all critical factors that can impact an auditor's independence. The size of audit fees is one factor that has a harmful effect on the independence of the auditor. They appear to believe that in this scenario, an auditor's independence in the auditor's perception is more vulnerable to being affected. One of these situations is when the audited client pays the auditor a more significant amount in audit fees than when the auditor receives a lower amount.

Keywords: Audit firms, auditor's independence, auditor's perception

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