



**Perceptions of External Auditors' Independence in South African Private  
Audit Firms**

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requirements for the degree of Master of Business Administration**

## DECLARATION

I, Kgadi Maserumule, declare that the factual contents of this thesis represent my unaided work and have not been previously submitted for academic examination towards any other qualification. In addition, it represents my own findings, not those of any other individual or institution.

Signed:  .

Date: 31 July 2024

## **ACKNOWLEDGEMENT**

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## **ABSTRACT**

Auditor independence is a pivotal principle essential for ensuring the integrity and reliability of financial reporting. This research paper explores perceptions of external auditors' independence within private audit firms in South Africa, particularly in light of recent accounting scandals that have eroded trust in the audit profession globally and within the country. In this academic research paper, we systematically test a hypothesis across multiple chapters to investigate perceptions of external auditors' independence within South African private audit firms. Specifically, we explore how the provision of non-audit services, audit tenure, and the employment of former auditors by audit clients may influence perceptions of independence.

The study employs a quantitative methodology and gathered data via an online questionnaire distributed to 300 respondents associated with the South African Institute of Chartered Accountants (SAICA). The sample comprised qualified chartered accountants, individuals eligible to register as chartered accountants, and trainees enrolled in a SAICA-accredited training program. This sample was accessed through email, WhatsApp, and LinkedIn to ensure a comprehensive reach within the professional community.

Contrary to the typical concerns expressed in existing literature, the findings suggest that providing non-audit services, extended audit tenure, and employment of former auditors by audit clients can positively impact perceptions of auditor independence. These results highlight the auditors' capability to maintain independence of mind and appearance despite potential conflicts of interest. This study underscores the need to adhere to stringent regulatory frameworks and professional guidelines supporting auditor independence. Further research should also investigate these relationships more deeply, potentially leading to refined strategies that safeguard auditor independence and reinforce public trust in the auditing profession in South Africa.

## **KEYWORDS**

External audit, independence, audit firm, audit tenure, audit fee, audit committee

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## **LIST OF ACRONYMS**

AGSA - Auditor-General of South Africa

ARC - Audit and Risk Committee

CA (SA) - Chartered Accountant South Africa

ERD - East Rand Member District of Chartered Accountants

IFRS - International Financial Reporting Standards

IRBA - Independent Regulatory Board for Auditors

JSE – Johannesburg Stock Exchange

MAFR - Mandatory Audit Firm Rotation

PIE – Public Interest Entity

RA – Registered Auditor

SAA - South African Airways

SAICA - South African Institute of Chartered Accountants

SCA - Supreme Court of Appeal

# CHAPTER 1: INTRODUCTION

## 1.1 Purpose of the study

The principle of independence is considered a fundamental aspect of an auditor's work and is of critical importance. The Independent Regulatory Board for Auditors (IRBA) code of professional conduct requires external auditors to be independent when performing audits, reviews, and other assurance engagements. Independence encompasses the following components: (a) Independence of mind, which refers to the mental state that enables an individual to express a decision or opinion without being influenced by factors that may impede their professional judgement. This state of mind facilitates acts of integrity, objectivity, and professional scepticism; (b) Independence in appearance, which pertains to the act of avoiding any facts or circumstances that possess such a level of significance that a rational and reasonably informed third party would be inclined to conclude that the integrity, objectivity, or professional scepticism of a firm, or an audit or assurance team member, has been compromised (IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018), 2018).

The frequency of accounting scandals within the corporate sector over the past decade has raised concerns among the public regarding the role of auditors in corporate governance. The increasing number of corporate scandals has led to a global crisis of confidence in the accounting profession (Alabede, 2012). In recent years, South Africa has experienced a series of corporate scandals. For instance, the collapse of Steinhoff in 2017, deemed the most significant corporate failure on the Johannesburg Stock Exchange (JSE), involved accusations of earnings manipulation, uncontrolled acquisition activities, and tax fraud (Lungisa, 2017). The erroneous representation of Tongaat Hulett's annual financial statements resulted in the eventual decline of the company's stock price (Harper, 2022). The executive management teams of Steinhoff and Tongaat Hulett were accused of manipulating financial reports and committing fraud, with the auditors

being held responsible for their failure to protect investors from such activities (Mantshantsha, 2023).

Current regulations strive to improve efforts to enforce accountability among auditors (Who Owns Whom, 2023). The Mandatory Audit Firm Rotation (MAFR) was one of the initiatives undertaken by IRBA to enhance auditor independence. It was deemed necessary due to the scarcity of audit firms and the increasing number of small finance director teams who held significant influence over the appointment of auditors, thereby exposing audit opinions to potential risks (Mantshantsha, 2023). However, the MAFR was revoked by the Supreme Court of Appeal (SCA) in early June 2023 following an objection by the East Rand Member District of Chartered Accountants (ERD), who contested IRBA's assertions that extended audit tenures led to a sense of familiarity and a subsequent decline in professional standards and impartiality (Crotty, 2023).

This quantitative study examines the perceptions of factors influencing external auditors' independence in South African private audit firms. In this academic research paper, we will systematically test a hypothesis across multiple chapters to investigate perceptions of external auditors' independence within South African private audit firms. Specifically, we will explore how the provision of non-audit services, the duration of audit tenure, and the hiring of former auditors by audit clients affect these perceptions.

The appointment of auditors in the private sector may be perceived as more susceptible to compromising auditors' independence, given the discretionary nature of the appointment process. Although numerous factors could affect an auditor's independence, this study specifically examines these factors, which have been the focus of similar studies outside of South Africa: (a) the provision of non-audit services, (b) audit tenure, and (c) the employment of former auditors by audit clients.

## 1.2 Background of the study

Independence is essential for auditors, as it is a fundamental principle underpinning their work. The primary objective of conducting a financial statement audit is to provide an audit opinion regarding the accuracy and fairness of the financial statements, which reflect the financial position of the audited entities at the end of their financial year and the results of operations during that period (Auditor General South Africa, 2024).

In 2020, Wirecard, a fintech company based in Germany, was involved in a significant scandal after it was revealed that a sum of €1.9 billion in cash, as stated on its balance sheet, was non-existent. Ernst & Young (EY), the external auditors, faced criticism for their inability to detect the fraudulent activities and potential conflicts of interest arising from auditing and providing consulting services to Wirecard. The controversy prompted questions about auditors' independence and the sufficiency of regulatory oversight (Poltz, 2023).

In the United Kingdom, the British multinational corporation Carillion, which specialises in construction and facilities management, collapsed in 2018. The financial statements of Carillion were provided with clean audit opinions by KPMG, the external auditors, despite the company's declining financial position. This also raised concerns regarding the auditor's independence due to the lack of professional scepticism (Mor, 2018). Africa is also no stranger to corporate scandals. Allegations of financial mismanagement and corporate governance breaches were levelled against Oando, an energy company based in Nigeria (Udo, 2017).

The audit profession plays a crucial role in the South African economy by ensuring adherence to financial reporting standards. However, the profession has experienced a decline in trust due to recent accounting scandals, which have significantly impacted the industry. One notable example is the recent announcement by the South African Institute of Chartered Accountants (SAICA) to revoke Ms. Yakhe Kwinana's membership following a disciplinary hearing on

her involvement in the Zondo State Capture Commission (Smit, 2023). Ms. Kwinana was the Chair of the Audit and Risk Committee (ARC), the Board committee overseeing the South African Airways (SAA) audit. She was implicated in significant flaws in the joint audits conducted by PWC and Nkonki. These deficiencies may have facilitated state capture, corruption, and irregularities to continue undetected at SAA over a long period. This incident highlights a potential conflict of interest arising from a business relationship between Ms. Kwinana and SAA's external auditors, PWC, raising concerns about PWC's independence (Judicial Commission of Inquiry into State Capture, 2022).

In 2018, KPMG acknowledged that weaknesses within the firm had fostered negative perceptions of the auditing profession (Nieselow, 2018). The accounting industry controversy has undermined public trust, and corrective measures must be taken deliberately and constructively. This follows KPMG's involvement in the collapse of VBS Mutual Bank, which experienced a significant fraudulent operation leading to its collapse (Nieselow, 2018).

In 2018, VBS Mutual Bank was placed under curatorship after discovering that nearly R2 billion had been embezzled. This scandal implicated senior executives and politicians, revealing significant governance failures and fraudulent activities. The auditors, KPMG, already faced substantial public criticism for their involvement with Gupta-owned Linkway Trading and the fictitious rogue unit at the South African Revenue Service in 2017. This additional scandal further questioned the firm's professional integrity (Corruption Watch, 2018).

Current regulations strive to enhance efforts to enforce accountability among auditors (Who Owns Whom, 2023). However, there is uncertainty that these regulations may render the profession undesirable to recent graduates who may be concerned about severe consequences if they are associated with corporate misconduct. This concern, coupled with the outflow of skilled individuals from the profession, has led to worries about a potential shortfall of auditors. The industry was expected to experience significant regulatory changes, including the mandatory rotation of auditors, which became effective on 1 April 2023 (Who

Owns Whom, 2023), but was revoked by the Supreme Court of Appeal (SCA) in early June 2023 (Mantshantsha, 2023).

The ruling implies that companies do not need to change their auditors, meaning there is no limit on audit tenures. Per the Mandatory Audit Firm Rotation (MAFR) guidelines, the aim was to prevent audit firms from serving as the designated auditors for a public interest entity or a listed company for a period exceeding ten consecutive financial years. After a decade-long auditing period, the audit firm would only be eligible for reappointment as the auditor once a minimum of five years had elapsed (Mantshantsha, 2023). The MAFR was one of the initiatives undertaken by the Independent Regulatory Board for Auditors (IRBA) to enhance auditor independence. This was deemed necessary due to the scarcity of audit firms and the increasing number of small finance director teams who held significant influence over the appointment of auditors, thereby exposing audit opinions to potential risks (Mantshantsha, 2023).

In recent years, concerns have also been raised regarding the capacity of large companies to perform independent audits while providing advisory services to these very clients. The Independent Regulatory Board for Auditors (IRBA) has announced its plans to mandate the separation of the structure and functions of audit companies into distinct entities, one solely dedicated to audit services and the other solely to advisory services. Existing regulations restrict audit firms from providing specific non-audit services to clients undergoing an audit (Who Owns Whom, 2023).

The Independent Regulatory Board for Auditors (IRBA) is a regulatory entity overseeing the public accountancy industry. Its primary objective is to safeguard the financial interests of the public by enforcing stringent admission criteria for auditing professionals and ensuring that registered auditors provide services of exceptional quality while adhering to the most rigorous ethical standards (The Independent Regulatory Board for Auditors, 2024). The South African Institute of Chartered Accountants (SAICA) is an accountancy body that operates as a non-statutory entity and offers its members various support services. SAICA is the

sole organisation accredited by the IRBA. All individuals who hold membership with SAICA and possess the designation of Chartered Accountant South Africa (CA(SA)) are authorised and qualified to perform independent reviews. According to the IRBA, individuals who are registered as RAs (Registered Auditors) and have qualified through the "audit route", regardless of whether they have chosen to register as RAs or not, are the only ones who meet the eligibility criteria for conducting independent reviews.

SAICA's membership is only partially composed of individuals in public practice. Instead, SAICA boasts a significant number of members who are engaged in business, retired, employed in the public sector, or involved in the field of education. The SAICA code of conduct distinguishes between chartered accountants in public practice and those in business. IRBA asserts that the performance of independent reviews is exclusive to SAICA members who have completed IRBA-accredited programs and meet or have met the eligibility criteria for registration with the IRBA.

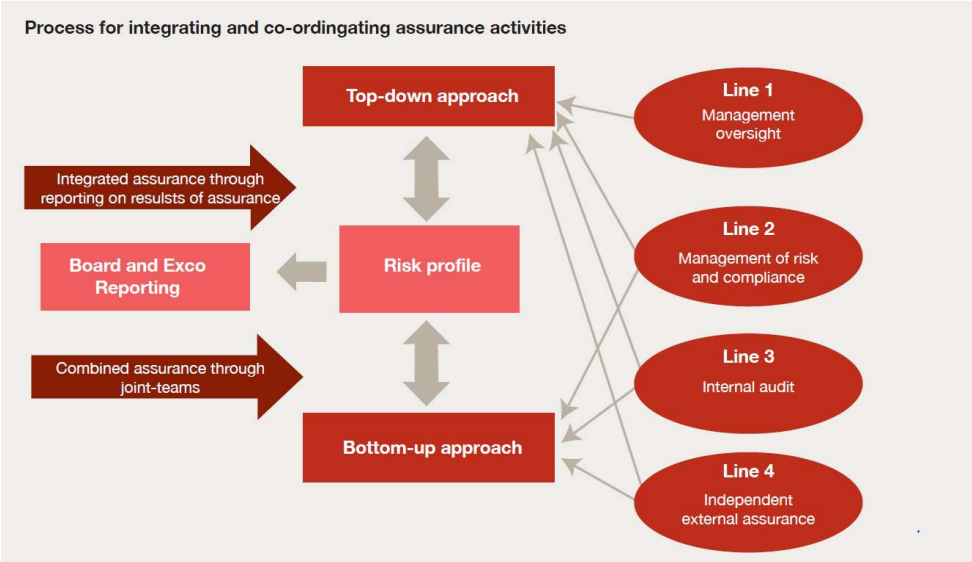
This paper examines the perceptions of factors influencing external auditors' independence in South African private audit firms. The appointment of auditors in the private sector may be perceived as more susceptible to compromising auditors' independence, given the discretionary nature of the appointment process. Although numerous factors could affect an auditor's independence, this study specifically looks at these factors, which have been the focus of similar studies outside of South Africa: (a) the provision of non-audit services, (b) audit tenure, and (c) the employment of former auditors by audit clients.

### **1.3 Problem Statement**

The external audit function is fundamental to organisations' corporate governance frameworks. However, it faces numerous challenges that could compromise its independence and effectiveness. Businesses are frequently



confronted with new challenges, increasing complexity, and market volatility, all of which entail different risks. As a result, people are compelled to develop greater resilience to safeguard themselves against various unpredictable global occurrences, alterations in regulatory policies, and many improvements to corporate governance.



**Figure 1:1 PWC Combined Assurance Model**

PricewaterhouseCoopers (PwC) developed a risk assurance framework that incorporates a combined assurance model to comprehensively evaluate areas of risk exposure for businesses and their governing bodies. The combined assurance model gradually increases assurance across four lines, culminating in the fourth line, independent external assurance, which provides the most robust and effective level of independent assurance. This underscores the significance of external auditing in promoting sound corporate governance and emphasises the necessity for auditors to uphold their independence. This paper examines perceptions of external auditors’ independence in South African private audit firms.

Despite the extensive global research on auditor independence, there remains a notable gap in the context of South African private audit firms. While similar

studies have been conducted in countries like Ethiopia and Mauritius, the unique socio-economic, regulatory, and cultural landscape of South Africa necessitates focused research to understand the specific perceptions of external auditors' independence within this environment.

### **Key Research Gaps:**

1. **Localized Regulatory Environment:** South Africa's regulatory framework, including the Companies Act and the rules set by the Independent Regulatory Board for Auditors (IRBA), presents a distinct landscape for audit practices. The influence of these regulations on the perceptions of auditor independence in private audit firms within South Africa has not been adequately explored.
2. **Economic and Market Dynamics:** The economic conditions and market dynamics in South Africa, characterized by a mix of developed and emerging market traits, differ significantly from those in Ethiopia and Mauritius. Understanding how these economic factors impact auditors' perceived independence in private firms is crucial and remains under-researched.
3. **Cultural and Ethical Considerations:** South Africa's diverse cultural backdrop and varying ethical standards could influence auditors' independence perceptions differently compared to other regions. There is a need for research that examines how these cultural factors affect the independence of auditors in South African private audit firms.
4. **Client-Auditor Relationships:** In smaller private audit firms, closer relationships between auditors and clients are common. Research from other countries may not fully capture the nuances of these relationships within the South African context, where trust and long-term business relations play a significant role. The impact of these relationships on perceived independence requires further investigation.

5. **Stakeholder Perceptions and Expectations:** There is limited understanding of how different stakeholders, including clients, regulators, and the auditors themselves, perceive auditor independence in South African private audit firms. Exploring these perceptions can provide insights into potential discrepancies and areas for improvement.
6. **Comparative Analysis:** While studies from Ethiopia and Mauritius provide valuable benchmarks, there is a need for comparative analysis to identify similarities and differences in perceptions of auditor independence across different African countries. Such comparative studies could highlight unique challenges and best practices relevant to the South African context.

Addressing these research gaps will not only contribute to the academic understanding of auditor independence in South African private audit firms but also inform regulatory and professional practices to enhance the credibility and effectiveness of audit processes in the region.

## **1.4 Research questions and objectives**

The main research objective is to determine perceptions of external auditors' independence in South African private audit firms, looking specifically at the following objectives:

### **Research objectives:**

1. To investigate the potential impact of non-audit services on auditors' independence.
2. To investigate the potential impact of audit firm tenure on auditors' independence.
3. To investigate the potential impact of former auditors' employment with audit clients on auditors' independence.

### **Primary question**

1. What factors influence external auditors' independence in South African private audit firms?

### **Sub-questions**

1. Does the provision of non-audit service negatively influence the external auditor's independence?
2. Can audit tenure negatively influence the external auditor's independence?
3. Is a former auditor's employment with the audit client likely to negatively influence the external auditor's independence?

### **Hypotheses**

#### ***Hypothesis 1 (H1)***

*Null hypothesis:* Non-audit services do not affect the auditor's independence.

#### ***Hypothesis 2 (H2)***

*Null hypothesis:* The audit tenure does not affect the auditor's independence

#### ***Hypothesis 3 (H3)***

*Null hypothesis:* The former auditor's employment with audit clients does not affect the auditor's independence

## **1.5 Rationale**

The question of factors affecting external auditors' independence has become a subject of debate worldwide and warrants further investigation. The credibility of financial reports would be compromised, and the confidence of investors and creditors would decline if auditors lack independence, both in mind and in appearance. In the private sector, the audit committee or those charged with governance in private companies are responsible for selecting the external

auditor. On the other hand, in the public sector, the appointment of the Auditor-General of South Africa (AGSA) must be approved by Parliament. The AGSA is an independent Chapter 9 institution established under the Constitution of the Republic of South Africa, Act 108 of 1996, to support democracy. The appointment of auditors in the private sector may be perceived as more susceptible to compromising auditors' independence, given the discretionary nature of the appointment process.

The rationale for the hypothesis is grounded in the critical importance of auditor independence to the integrity and reliability of financial reporting. In South Africa, as in many other countries, the independence of external auditors is a cornerstone of trust in financial statements. However, several factors can potentially compromise this independence, thereby influencing stakeholders' perceptions.

**Provision of Non-Audit Services:** The provision of non-audit services by audit firms to their audit clients is a contentious issue. While such services can enhance the auditor's understanding of the client's business, they can also create conflicts of interest that might compromise the auditor's objectivity and impartiality. Previous studies have shown mixed results regarding the impact of non-audit services on perceived auditor independence, suggesting a need for further investigation in the South African context.

**Audit Tenure:** The length of the audit tenure, or the duration for which an audit firm has been engaged by a client, is another factor that can affect perceptions of independence. Long-term relationships between auditors and clients may lead to increased familiarity and potential complacency, raising concerns about the auditor's ability to remain unbiased. Conversely, shorter tenures may not allow sufficient time for auditors to fully understand the client's operations, potentially affecting audit quality.

**Employment of Former Auditors by Audit Clients:** The movement of personnel between audit firms and their clients, especially when auditors are

employed by their former clients, can pose significant threats to independence. This practice, often referred to as the "revolving door," can create personal relationships and conflicts of interest that may undermine the perceived and actual independence of the auditors.

By examining these factors within the context of South African private audit firms, this research aims to provide empirical evidence on how they influence perceptions of auditor independence. The anticipated outcome of this study is to make a scholarly contribution to the conversation surrounding auditor independence by evaluating the matter within the framework of private audit firms in South Africa. This research has the potential to provide valuable insights to regulatory bodies overseeing the auditing profession in South Africa regarding the structuring of auditor independence to ensure appropriate regulation of the private sector. Understanding these dynamics is crucial for developing policies and practices that safeguard the objectivity and reliability of financial audits, thereby enhancing stakeholder confidence in financial reporting. Additionally, the study's results may serve as a foundation for future research and discussions, ultimately contributing to the overall body of knowledge on this topic.

## **1.6 Delimitations of the study**

The delimitations of this study are outlined in four key areas:

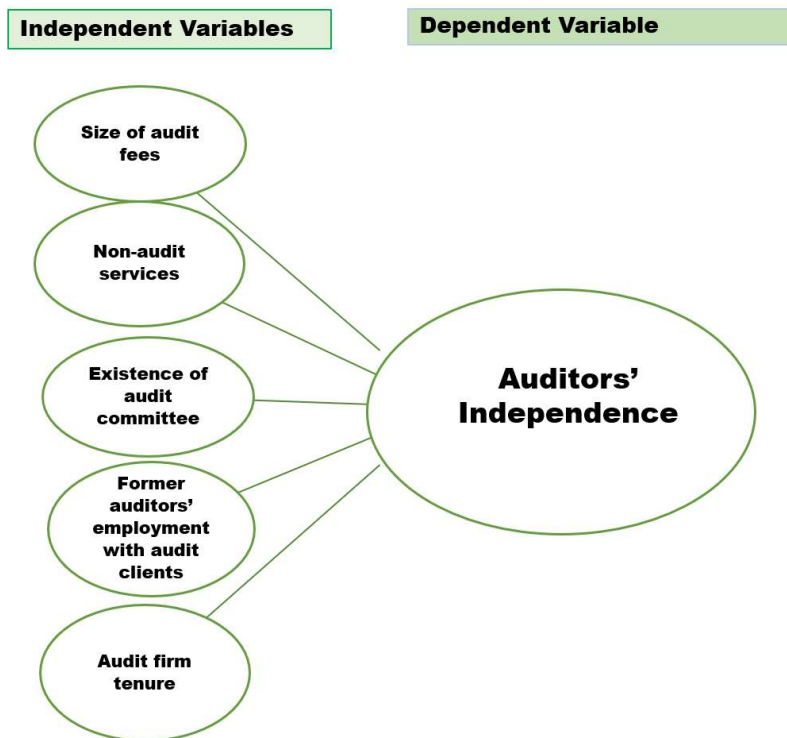
- **Type of auditors:** The auditing profession is categorised into Internal and External Auditing. External auditors are independent assurance providers who have a statutory duty to report to shareholders and the public on the accuracy of annual reports and financial statements. They focus on assessing financial reporting risks and controls, gathering audit evidence to ensure the financial statements present a true and fair view, and recommending financial control improvements. Internal auditors are excluded from the study because they are mostly employees within an organisation who report to senior management and the board, often through the audit committee, on governance, risk management, and

controls across all departments, functions, and operations. They review control design, test key controls for effectiveness, manage organisational risks, and recommend improvements to the control environment and operational performance.

- **The sector of focus:** This study concentrates on private audit firms because audit committees or governance bodies in private companies are responsible for selecting external auditors. This selection process in the private sector may be seen as more prone to compromising auditor independence due to its discretionary nature. Public sector auditing is excluded since the appointment of the Auditor-General of South Africa (AGSA) requires parliamentary approval, and the AGSA is an independent Chapter 9 institution established under the South African Constitution to support democracy.
- **Location:** The study is centred in South Africa, as previous similar studies have been conducted in other countries, such as Ethiopia and Mauritius, but not within South Africa.
- **Period:** The chosen period for this study is 2014 to 2023. During this decade, South Africa experienced several significant accounting scandals that influenced its business environment. Notably, African Bank Investments Limited (Abil) collapsed in 2014 when its banking division went into curatorship due to insufficient provisioning for bad debt, raising questions about whether Deloitte auditors exercised adequate professional scepticism. Subsequently, the number of corporate scandals increased, including the Steinhoff International accounting fraud in 2017 and Tongaat Hulett's financial statement manipulations in 2019.

## 1.7 Theoretical framework

The theoretical framework adopted from other studies is noted below. This study has adjusted this theoretical framework to focus on factors relevant to the study.



**Figure 2:** Theoretical Framework (Deyganto, 2021)

## 1.8 Methodology

This quantitative study examines the perceptions of external auditors' independence in South African private audit firms. A quantitative methodology was employed specifically to ensure the attainment of either the null (h) or alternative (h1) hypothesis, utilising the most empirical data available from quantitative data techniques. The appointment of auditors in the private sector may be perceived as more susceptible to compromising auditors' independence, given the discretionary nature of the appointment process. Although numerous factors could affect an auditor's independence, the study specifically looks at these factors, which have been studied outside of South Africa, namely (a) the provision of non-audit services, (b) audit tenure, and (c) former auditor's employment with the audit client.



## **1.9 Chapter Outline**

The research is structured into six chapters. Chapter One presents the problem statement, research objectives, significance, scope, and limitations, and outlines the structure of the paper. Chapter Two comprehensively analyses the literature, the conceptual framework, and the research hypothesis. The third chapter of the study elaborates on the methodology used, including the research design, target population and sample size, data collection techniques, assessment of validity and reliability, and data analysis. Chapter Four presents the statistical analysis and findings obtained during the data collection. Chapter Five thoroughly examines the research findings, contextualised within the backdrop of existing literature. Chapter Six presents a conclusion on the main findings of this study and recommendations for future research.

# **CHAPTER 2: A LITERATURE AND THEORETICAL ANALYSIS**

## **2.1 Introduction**

This chapter provides a literature review on the research topic, following the overview. The primary aim of this research is to explore perceptions of external auditors' independence within private audit firms in South Africa, particularly in response to recent accounting scandals that have undermined trust in the audit profession both globally and locally. The study examines how the provision of non-audit services, audit tenure, and the employment of former auditors by audit clients may affect perceptions of independence. Various literature themes and concepts are discussed and analysed in this section. The chapter begins with a critical examination of auditors' independence, followed by an analysis of factors influencing this independence. The literature review delves into these concepts within the study's context to offer new interpretations. This approach helps generate new insights or knowledge about the key literature concepts. Ultimately, a conceptual framework is proposed to clarify the relationships among the important variables, and three hypotheses are developed for testing by the end of the chapter.

## **2.2 Definition of topic or background discussion**

The external auditors' audit function can significantly contribute to the achievement of good corporate governance. The external audit function is perceived as a value-enhancing function that provides credibility to financial reports that have been made public. The collapse of Andersen, one of the leading public accounting firms, due to audit failures at the beginning of the 21st century, has raised significant concerns regarding the effectiveness of the audit function in enhancing corporate governance. Flesher, Previts, and Samson (2005) traced the origin of auditing to a governance procedure that Pilgrims and Puritans

employed. The argument proposes that the practice of auditing predates the formation of the accounting profession and the implementation of regulations mandating independent auditors to review the financial statements of publicly traded corporations. The evidence presented suggests a correlation between the practice of auditing and the corporate governance protocols of early businesses. The accounting field has transformed from number-crunching to a service-oriented management activity. With the introduction of emerging corporate governance reforms such as the King Report on Corporate Governance, accounting has become crucial to providing credibility, dependability, and objectivity to developing reliable, helpful, and transparent financial reports and efficient internal controls.

The Companies Act 71 of 2008 set out requirements for public or state-owned companies and private companies (based on their public interest score) to have their financial statements audited annually by an independent auditor. The objective of the auditor's function in corporate governance and the financial reporting process is to provide independent assurance to shareholders concerning the fair presentation, in all material respects, of the company's financial statements per the International Financial Reporting Standards (IFRS). In the late 1900s, public accounting firms expanded their services from conducting audits to providing a wide range of non-audit services. In the past, an audit was considered a low-margin activity and a means of generating revenues for other non-audit services (e.g., consulting, tax, accounts, internal control outsourcing, and IT support). As a result, the concept of a one-stop shop for all audit and non-audit services became a common practice for many public accounting firms and their clients. This concept and its practice impaired both auditor independence and public trust.

## **Auditors Independence**

The IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) sets out fundamental principles of ethics for registered auditors, reflecting the profession's recognition of its public interest responsibility. These principles establish the standard of behaviour expected of a registered auditor. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. In the case of audits, reviews, and other assurance engagements, the Code sets out Independence Standards, which are established by applying the conceptual framework to threats to independence in these engagements. In addition, the Code requires registered auditors to be independent when performing audits, reviews, and other assurance engagements.

Independence is linked to the principles of objectivity and integrity. It comprises (a) Independence of mind, which refers to the mental state that enables an individual to express a decision or opinion without being influenced by factors that may impede their professional judgement. This state of mind facilitates an act of integrity, objectivity, and professional scepticism; (b) Independence in appearance pertains to the act of avoiding any facts or circumstances that possess such a level of significance that a rational and knowledgeable third party would be inclined to conclude that the integrity, objectivity, or professional scepticism of a firm, or an audit or assurance team member, has been compromised ("IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018), 2018).

## **2.3 Factors Influencing External Auditors' Independence in South African Private Audit Firms**

Most empirical research on the perception of auditors' independence has centred on identifying the factors that impact auditors' independence and examining the potential positive or negative relationships between these factors and the perception of auditors' independence. The auditor must maintain independence and convey an image of independence to the stakeholders of the entity being audited. The potential roots of these threats are likely to include various factors, including those that impact the perception of auditors' independence, which have been subject to examination in prior research, including (a) audit firm size, (b) size of audit fee, (c) professional audit standards, (d) level of competition in the audit market, (e) provision of non-audit service, (f) audit committee's Independence, (g) information technology, (h) audit tenure, and (i) ex-auditors' employment with audit clients (Deyganto, 2021; Ahmad, 2015; Madlela, 2019; Shumie, 2016; Gudich, 2016; Norziaton & Muharam, 2021).

While empirical reviews strive to present their findings based on their specific study areas, assuming that the results obtained in one country are universally applicable to another would be inappropriate. The above phenomenon can be attributed to each nation's distinct cultural, economic, and political circumstances and requires careful consideration. The current study attempts to investigate the determinants that impact the independence of external auditors in private audit firms in South Africa.

The following is a literature review on factors affecting external auditors' independence in private audit firms in South Africa.

### ***2.3.1 Provision of Non-audit services***

Non-audit services encompass a broad range of services provided by auditors to their audit clients, excluding the core auditing function. These services may include management advisory services, consulting, compliance-related services

such as taxation and accounting advice, as well as assurance-related services like due diligence and internal audit. Early research suggested that providing such non-audit services could compromise auditor independence by fostering an excessively close relationship between auditors and clients, thus undermining objectivity (Shumie, 2015).

However, contrasting views exist, with some research indicating a positive correlation between providing non-audit services and auditor independence. For instance, Goldwasser (1999) argued that offering management advisory services could enhance auditors' understanding of clients, thereby bolstering objectivity. Similarly, Akinbowale and Babatunde (2017) found a strong, positive correlation between non-audit services and auditor independence, emphasising the importance of such services in enhancing auditors' grasp of client information and evaluating client transactions comprehensively.

Yet, studies such as Ashbaugh, LaFond, and Mayhew's (2003) and Zhang et al.'s (2016) found no significant correlation between non-audit services and auditor independence. Despite providing both audit and non-audit services to the same client, auditors are expected to maintain independence, including in appearance, indicating their ability to delineate their responsibilities effectively.

Given these mixed findings, the primary aim of this study is to investigate the impact of non-audit fees on the independence of external auditors, contributing to a deeper understanding of this crucial aspect of auditor-client relationships.

### **2.3.2 Audit firm tenure**

The King IV Report on Corporate Governance for South Africa defines audit tenure as the duration of the professional relationship between the audit firm and the client. Determining the duration of an audit firm's tenure as an external auditor for an organisation is based on the number of consecutive financial years during which the firm has provided audit services, resulting in the company's most recent audited financial year. This factor may impact the risk of compromising the

auditor's independence. The works of Shumie (2016) and Norziaton and Muharam (2021) show that most writers who study the relationship between auditor tenure and independence agree with this point of view. If a business has worked with audit firms for a long time, there may be a strong connection between the accounting firm and the management interests of its client. This could make it hard for audit firms to act in a truly independent manner. According to Shumie (2016), extended client relationships may lead to complacency, reduced innovation, less stringent audit procedures, and the development of trust in the client. A prolonged audit relationship may induce auditors to adopt a complacent stance and exhibit a relaxed approach in discharging their audit duties, motivated by a desire to uphold a favourable rapport with management (Lokman & Bakri, 2020).

Moreover, auditors may be inclined to prioritise management preferences over exercising independent judgement, thereby introducing a conflict of interest. This dilemma arises from the potential repercussions auditors face: adhering to management directives may safeguard their position, whereas asserting independence risks the termination of their external audit service. Mitigating the risks associated with extended audit relationships is imperative, as management's influence on audit judgments threatens auditor independence (Lokman & Bakri, 2020).

The Independent Regulatory Board for Auditors (IRBA) has issued a regulation known as the Mandatory Audit Firm Rotation (MAFR) rule, which mandates the implementation of MAFR by auditors of public interest entities (PIEs) for financial years commencing on or after April 1, 2023. According to the MAFR regulation, it is impermissible for an audit firm, including a network firm, to be the auditor of a Public Interest Entity (PIE) for a period exceeding ten consecutive financial years (Madlela, 2019). It can be inferred that a company designated as the auditor for a Public Interest Entity (PIE) is obligated to undergo rotation every ten years. Per the MAFR regulation, it is impermissible for a said entity to be reinstated as the auditor of the designated PIE until the conclusion of a mandatory cooling-off phase spanning no less than five fiscal years. Likewise, the

reappointment of a network company is prohibited until the completion of the designated five-year financial term (Madlela, 2019).

The principal rationale for implementing Mandatory Audit Firm Rotation (MAFR) in South Africa is to bolster the autonomy of auditors from their audited clients, thereby augmenting the quality of audits. It is contended that this represents a highly sound policy consideration (Madlela, 2019). The statement above aligns with the apprehensions expressed by the IRBA, which primarily pertain to the extended duration of audit firms in the South African market, with some firms having a tenure of over a century. The MAFR rule encompasses additional objectives, as classified by the IRBA, that are considered subordinate to the primary aim of augmenting auditor independence and audit quality. These objectives include amplifying competition within the audit market, which has historically been monopolised by the Big Four audit firms, to create more prospects for small and mid-tier audit firms. Additionally, the MAFR rule encourages transformation within the auditing profession (Madlela, 2019). However, the MAFR was revoked by the Supreme Court of Appeal (SCA) in early June 2023 following an objection by the East Rand Member District of Chartered Accountants (ERD) who contested IRBA's assertions that extended audit tenures led to a sense of familiarity and a subsequent decline in professional standards and impartiality (Crotty, 2023).

According to Bakar and Ahmad (2009), prolonged audit tenure is perceived as a risk factor that can compromise auditor independence. Similarly, Ouyang and Wan (2013) discovered that extended auditor-client relationships, particularly those lasting ten years, are associated with diminished independence among auditors, especially in small businesses. Yip and Pang (2017) also demonstrated that audit tenures exceeding five years harm auditor independence. Consistent with these findings, Al-Ajmi and Saudagaran (2011) identified long auditor tenure as the primary factor negatively impacting auditor independence in Bahrain. Implementing mandatory auditor rotation has been suggested to mitigate the potential influence of prolonged audit tenure on auditor independence (Al-Khoury et al., 2015).



However, contrary to these perspectives, a study conducted in Spain by Argiles-Bosch and Garcia-Blandon (2016) found no significant association between long audit tenure and auditor independence. Another study revealed that most participants believed auditor independence could be enhanced by maintaining a long-standing relationship between the auditor and the audited firm (Lokman & Bakri, 2020). This perspective stems from the notion that prolonged audit tenure allows auditors to grasp their clients' requirements, enhancing their expertise and competence. Consequently, this heightened understanding will produce superior audit reports and quality. As a result, recommendations concerning the limitation of auditor rotation and audit firm rotation should be thoroughly evaluated by professional bodies, regulators, and policymakers before their compulsory implementation (Lokman & Bakri, 2020).

### ***2.3.3. Former auditors' employment with audit clients***

Previous studies have indicated that it is common for auditors to receive employment offers from their clients' companies (Ahmad, 2015). The practice of senior financial reporting executives being hired by audit clients directly from their external audit firms has been commonly referred to as a 'revolving door,' as noted by Ahmad (2015). According to Ahmad (2015), it is common for clients to prefer hiring former employees of their audit firms due to the former auditors' possession of knowledge of the client's business, financial reporting processes, and other information systems. This knowledge advantage is typically only available to candidates within audit firms. Ahmad (2015) concluded that the appearance of auditor independence is negatively affected by the auditor-client employment issue. The results, however, contradict the findings in the other Malaysian study, Sori and Mohamad (2007), as they needed more evidence to support the current findings.

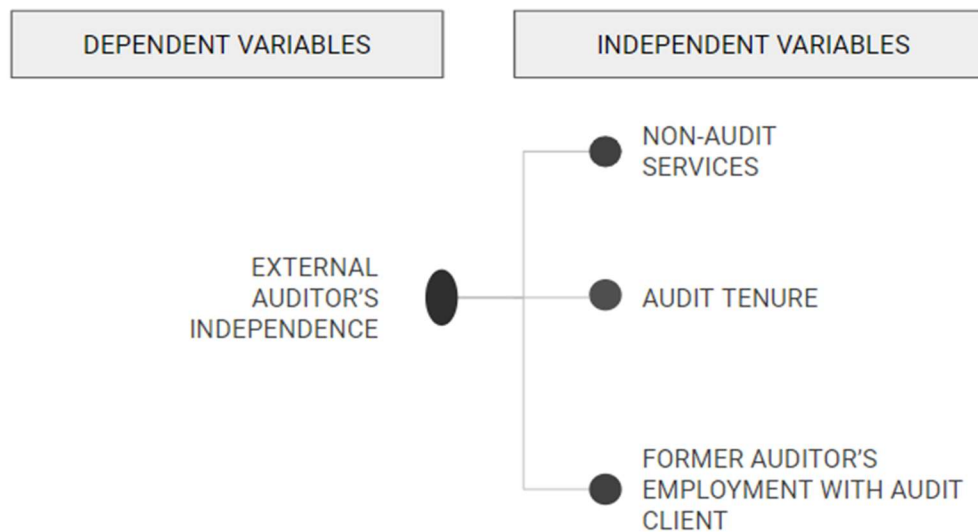
Ahmad (2015) conducted a study revealing that individuals who held supervisory roles as ex-auditors before joining an audit client were perceived to compromise

independence more than those previously in non-supervisory positions. Despite these findings, respondents generally concurred that even an ex-audit senior (non-audit partner) working for an audit client could threaten independence. This suggests lingering concerns among respondents regarding the potential influence of prior positions held by ex-audit seniors, such as audit managers or audit seniors, on the independence of remaining auditors (Ahmad, 2015). Furthermore, the study's findings suggest that the current position of an ex-auditor significantly impacts the subsequent audit approach, with independence being scrutinised more when the ex-auditor assumes a role as a preparer rather than a non-preparer of financial statements (Ahmad, 2015). Additionally, the study proposes that a 2-year cooling-off period could mitigate the negative impact on independence resulting from the revolving door practices of former senior auditors assuming significant positions with audit clients (Ahmad, 2015).

In South Africa, no regulations prohibit auditors from obtaining employment from their audit clients. However, the IRBA Code of Professional Conduct for Registered Auditors states that the audit firm or network firm shall have policies and procedures that require audit team members to notify the firm or network firm when entering employment negotiations with an audit client and can remove the individual from the audit team.

## **2.4 Framework Analysing Influences on Auditor Independence**

This section presents a conceptual framework for the current study, informed by a comprehensive review of relevant literature. The paper illustrates the relationship between dependent and independent variables.



**Figure 2.1:** Conceptual Framework: Factors Influencing Auditors' Independence

## 2.5 Chapter Summary

This chapter highlights the essential literature that forms the foundation of the study. Initially, the literature on auditors' independence was reviewed, followed by an analysis of the factors influencing this independence and a definition of key terms used consistently throughout the study. The literature review reveals conflicting perspectives on how these factors impact auditors' independence, with most studies focusing on specific firms or regions outside of South Africa. In contrast, this study examines the factors affecting external auditors' independence in private audit firms within South Africa. Consequently, the hypotheses to be tested are formulated based on the research objectives as follows:

- **Hypothesis 1 (H1)**

Null hypothesis: Non-audit services do not affect the auditor's independence.

*Alternate hypothesis: Non-audit services positively affect the auditor's independence.*

The literature review reveals mixed findings regarding the impact of non-audit services on external auditors' independence, with studies indicating positive, negative, or no relationships between the variables. This research aims to clarify these discrepancies by investigating whether non-audit services enhance or compromise auditor independence.

- **Hypothesis 2 (H2)**

Null hypothesis: The audit tenure does not affect the auditor's independence

*Alternate hypothesis: The audit tenure positively affects the auditor's independence*

Some studies suggest a consensus that extended auditor tenure can compromise independence due to strong ties between audit firms and client management, while others propose it poses a conflict of interest. Amid ongoing debates about mandatory auditor rotation, this research aims to clarify these discrepancies.

- **Hypothesis 3 (H3)**

Null hypothesis: The former auditor's employment with audit clients does not affect the auditor's independence

*Alternate hypothesis: The former auditor's employment with audit clients positively affects the auditor's independence*

The literature suggests that ex-auditors in supervisory roles before joining an audit client are perceived to compromise independence more than those in non-supervisory positions. In South Africa, no regulations prohibit auditors from being employed by their audit clients. Therefore, the primary objective of this study is

to ascertain the impact of former auditors' employment at the audit client on the independence of external auditors.

The subsequent chapter explores the research methodology employed to evaluate the statistical significance of the hypotheses against the null hypothesis, which suggests the absence of any association between the independent factors and auditors' independence.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This section of the research paper outlines the systematic approach undertaken to investigate the research problem. It details the research design, data collection methods, and analytical procedures used to ensure the validity and reliability of the study's findings. Emphasis is placed on the quantitative methods employed, including the selection of participants, instrumentation, and statistical techniques, to provide a comprehensive understanding of the factors influencing external auditors' independence in private audit firms in South Africa. By rigorously applying these methodologies, the study aims to produce robust and generalizable results that contribute to the existing body of knowledge and offer practical implications for the auditing profession.

### **3.2 Research approach**

Researchers such as Deyganto (2021), Ahmad (2015), and Gudich (2016) have utilised the quantitative research approach in comparable studies, which aligns well with the nature of this study. McLeod (2019) notes that quantitative methodology examines existing theories and either corroborates or challenges them. Quantitative research enables the researcher to employ a large sample size and analyse data efficiently (Miller & Devault, 2020). Therefore, this study adopts a quantitative approach.

### **3.3 Research design**

Dudovskiy (2018) suggests that employing a deductive research approach offers several advantages, as it allows the researcher to elucidate the causal relationship between independent and dependent variables and facilitates the generalization of research findings. The current study builds upon a pre-existing

conceptual framework derived from the findings of previous researchers, including Deyganto (2021) and Shumie (2016).

The research seeks to investigate the correlation between the independent variables and the dependent variable, namely, auditor independence. Therefore, this study employs a deductive research methodology.

### **3.4 Data collection methods**

The research data were collected via a survey using the Qualtrics tool. The survey was modified using measurement items sourced from questionnaires found in the existing literature. The measurement items utilised in this study were modified from existing literature to ensure validity and reliability. Questionnaires are considered a favourable instrument for collecting data due to their capacity to produce a comprehensive and dependable range of data (Blanche et al., 2006). One benefit of choosing this instrument is its ability to maintain confidentiality and monitor individuals who fail to submit the questionnaire within the designated time frame, necessitating subsequent reminders. Additionally, questionnaires are practical instruments for data collection due to the ease with which they may be administered, enabling researchers to interact with many people.

Most questionnaires hide the names of the people who fill them out, allowing for more open and honest expressions of their perspectives. A researcher can make the data analysis process more efficient by taking a more straightforward approach to constructing the questionnaires. The format of the questionnaires utilised in this study comprised the use of closed-ended questions, particularly the Likert scale format, adapted from earlier works by Shumie (2016) and Ahmad (2015). The questionnaire was divided into two sections. Section A presented the participants' demographic features to describe the respondents, while Section B outlined their responses to the questions concerning the factors influencing auditors' independence.

## **3.5 Population and sample**

### ***3.5.1 Population***

The target population for this study comprises individuals enrolled in or graduated from the South African Institute of Chartered Accountants (SAICA) training programme. This includes qualified chartered accountants, individuals eligible for registration as chartered accountants, and trainees participating in a SAICA-accredited training programme.

The South African Institute of Chartered Accountants (SAICA) holds significant prestige within the accounting profession, both nationally and globally (South African Institute of Chartered Accountants, 2024). SAICA plays a crucial role in establishing and upholding ethical standards, providing quality education, and promoting professional excellence in accounting practices. Through its oversight of professional standards and regulation of member conduct according to the SAICA Code, the institute ensures the ongoing relevance and integrity of the accounting profession (South African Institute of Chartered Accountants, 2024).

As of February 2024, SAICA reported a total of 53,039 registered chartered accountants in South Africa (South African Institute of Chartered Accountants, 2024). However, this figure excludes individuals enrolled in SAICA-accredited training programmes and those eligible for chartered accountant registration but not yet registered with SAICA. Despite comprehensive online research efforts, the precise size of the target population remains undetermined.

### ***3.5.2 Sample and sampling method***

According to Bujang and Adnan (2016), defining the sample size is crucial to ensure the reliability of study results, with sufficiency determined by factors relevant to the study's purpose. Kline (2016) suggests that for Structural Equation Modelling (SEM), which accommodates populations of unknown sizes, sample sizes below 100 are considered small, 100 to 200 are medium, and those



exceeding 200 are significant. Given that this study will employ SEM and the population size is unknown, an online sample size calculator recommended a minimum and recommended sample size of 300, considering a probability level of 0.05 and a desired statistical power of 0.8. Additional support for this estimate comes from Cohen (1988) and Westland (2010). Therefore, the research adopted a sample size of 300 to detect an effect, accounting for the expected response rate to online surveys.

To ensure fairness and resource efficiency, the study employed a simple random sampling technique, providing all audit firms an equal opportunity for selection, aligning with the methodology of Deyganto (2021).

### **3.6 The research instrument**

The questionnaire (Appendix A) was structured using a Likert Scale with five points, ranging from "Strongly Disagree" to "Strongly Agree" (1 = Strongly Disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, and 5 = Strongly Agree). This format was adapted from previous studies conducted by researchers such as Shumie (2016) and Ahmad (2015), who employed a similar methodology.

### **3.7 Procedure for data collection**

The website link was electronically disseminated to current and aspiring chartered accountants located within South Africa through various channels, including email, WhatsApp, and LinkedIn. This cost-effective approach enabled a wider outreach, thereby enhancing the likelihood of obtaining a greater sample response rate.

### **3.8 Data Analysis Strategies and Interpretation**

The survey data was analysed using the 28th version of the IBM Statistical Package for the Social Sciences (SPSS) software. SPSS facilitated various

statistical analyses, including Descriptive Statistics to outline the population's characteristics. Descriptive analytics serve as a fundamental step in the research process, providing valuable insights into sample composition, trends, and attributes. By enhancing understanding, enabling comparisons, and guiding subsequent analyses, descriptive analytics contribute to the overall rigour and validity of the research methodology. Reliability analysis, utilising Cronbach's alpha, was conducted, along with Confirmatory Factor Analysis to establish data validity, and Regression Analysis to examine the correlation between factors influencing External Auditors' Independence. Additionally, the analysis was informed by relevant literature, drawing from previous studies conducted by researchers such as Shumie (2016) and Ahmad, M. (2015), who employed a similar methodological approach.

### **3.9 Possible limitations and challenges of the study**

The scope of factors that impact auditors' independence is extensive. However, this study limited its focus to a few factors due to practical considerations such as manageability, time constraints, and financial limitations. In addition, this study solely focused on the perspective of external auditors with experience in private audit firms. Due to limited time and financial resources, this research did not incorporate the viewpoints of other stakeholders, including external auditors who work with public sector clients, internal audit staff members, and Accounting Scholars pursuing a CA(SA) qualification.

### **3.10 Ethical considerations**

The study followed stringent protocols to safeguard data, including storing participant information on a password-protected computer for five years. Given the potential risks associated with research involving human subjects, obtaining ethical clearance from Wits University before data collection was essential. The research strictly adhered to the institution's policies and ethical procedures outlined by the Ethics Committee. Participants were provided with an information

sheet and consent questions as part of the survey, ensuring that they consented before completing the questionnaire.

### **3.11 Chapter Summary**

The research project initiated data collection by distributing a survey via the Qualtrics platform. The survey link was electronically disseminated to current and prospective chartered accountants across South Africa through email, WhatsApp, and LinkedIn. To effectively meet the study's objectives, modern techniques and methodologies were employed in conducting this research.

Ensuring participants' protection and comprehension of the research project's aim was paramount to achieving these objectives. Chapter Three delineated the data collection plan, elucidating the various methods utilised. Subsequently, Chapter Four undertakes an analysis and presentation of the collected data.

# CHAPTER 4: DATA PRESENTATION AND ANALYSIS

## 4.1 Introduction

This study delves into the perceptions of external auditors' independence within private audit firms in South Africa, focusing on the aftermath of recent accounting scandals that have eroded trust in the auditing profession on a global and local scale. It investigates the impact of non-audit services, audit tenure, and the employment of former auditors by audit clients on perceptions of auditor independence.

The current chapter elucidates the data collection and analysis process, utilizing a sample comprising qualified chartered accountants, individuals eligible for chartered accountant registration, and trainees in a SAICA-accredited training program. Data collection was conducted via email, WhatsApp, and LinkedIn to ensure comprehensive coverage within the professional community. The analysis is structured into sections that encompass descriptive analytics and the testing of the study's three hypotheses.

## 4.2 Descriptive Statistics

This section analyses the respondents' demographic profiles, including their gender, age, level of education, and department of employment.

### 4.2.1 *Sample Description*

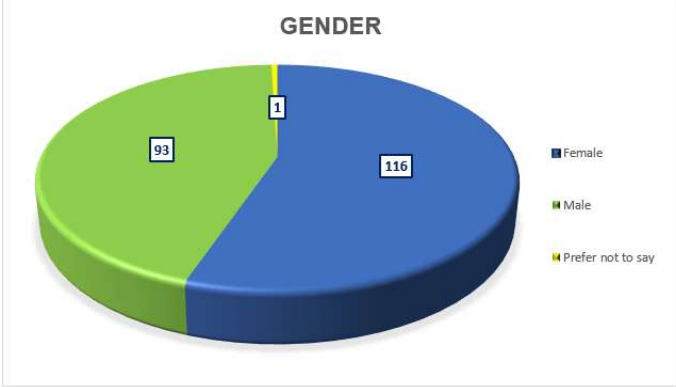
At the conclusion of the survey period, the response rate reached 70%, yielding data from 210 individuals enrolled in the SAICA training programme, both past and present. Table 4.1 provides an overview of the demographic characteristics of the sample population.

**Table 4.1: Demographic Profile**

Factor	Frequency	Percentage
<b>Age</b>		
21 - 29 years	50	23.8%
30 - 39 years	147	70.0%
40 and above	13	6.2%
<b>Total</b>	<b>210</b>	<b>100%</b>
<b>Gender</b>		
Female	116	55.2%
Male	93	44.3%
Prefer not to say	1	0.5%
<b>Total</b>	<b>210</b>	<b>100%</b>

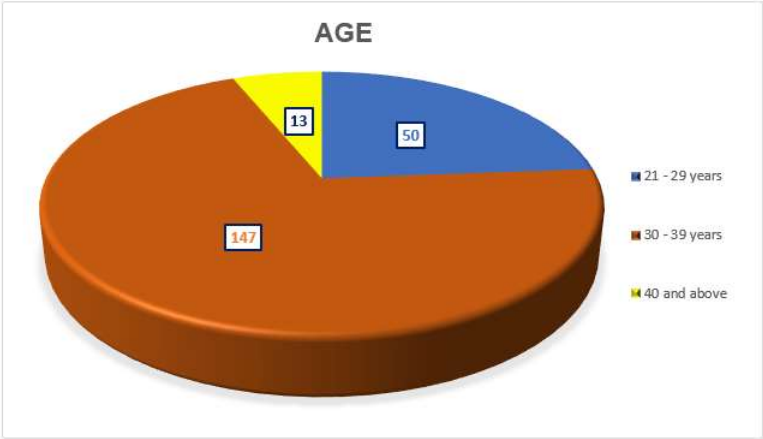
<b>Highest Level of Education</b>		
Masters Degree	6	2.9%
Post Graduate Diploma/Honours Degree	199	94.8%
Undergraduate Degree	5	2.4%
<b>Total</b>	<b>210</b>	<b>100%</b>
<b>Organisational Level</b>		
Executive/Partner	11	5.2%
Junior Manager	51	24.3%
Middle Manager	63	30.0%
Senior Manager	48	22.9%
Trainee/Audit Clerk	37	17.6%
<b>Total</b>	<b>210</b>	<b>100%</b>
<b>Years of experience</b>		
3 years or less	34	16.2%
4 - 8 years	107	51.0%
8 - 10 years	39	18.6%
Over 10 years	30	14.3%
<b>Total</b>	<b>210</b>	<b>100%</b>
<b>Audit Firm Experience</b>		
AGSA	6	2.9%
Banking	8	3.8%
Big Four Audit Firm (Deloitte, EY, KPMG, PWC)	162	77.1%
Small and Middle size firm	34	16.2%
<b>Total</b>	<b>210</b>	<b>100%</b>

Figure 4.1 below displays the gender distribution of the respondents. The majority of respondents identified as female (n=116), followed by 93 respondents identifying as male. Only one respondent opted not to disclose their gender.



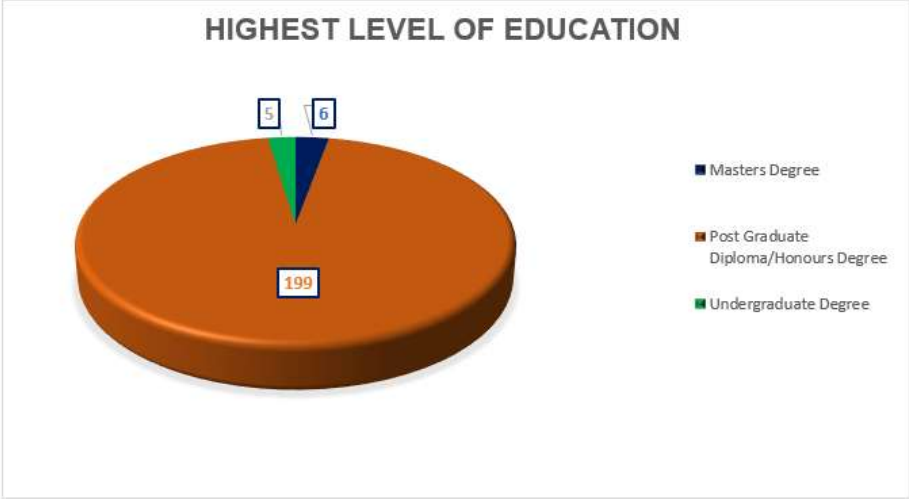
**Figure 4.1** Gender Distribution

As depicted in Figure 4.2 below, 13 respondents fall into the 30-39 age group, while 50 respondents belong to the 21-29 age bracket. The largest portion of respondents, totaling 147 individuals, is in the above 40 age group.



**Figure 4.2** Age Distribution

Figure 4.3 below illustrates that the majority of respondents (94.8%; n=147) possess a postgraduate diploma/honours degree. This is followed by 2.9% (n=6) with a Master's degree and 2.4% (n=5) with an undergraduate degree.



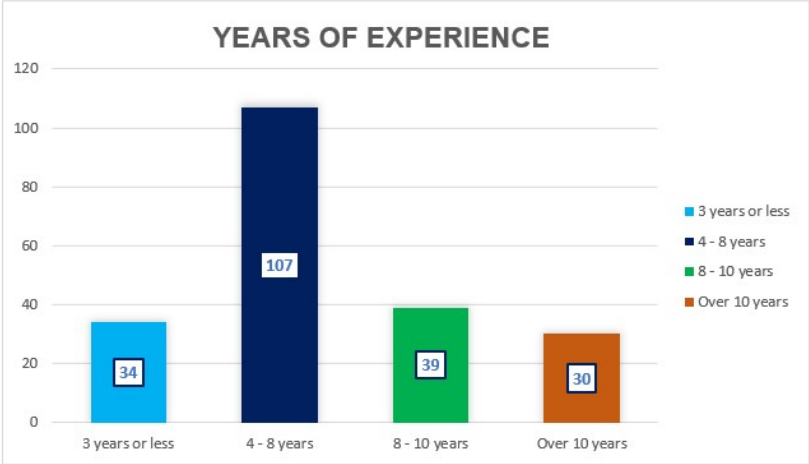
**Figure 4.3 Level of Education Distribution**



**Figure 4.4 Organisational Level Distribution**

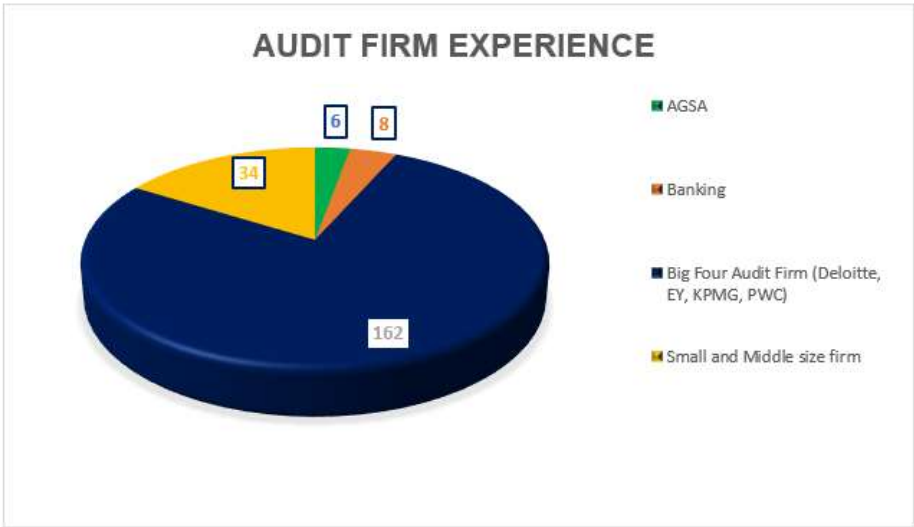
Figure 4.4 above demonstrates that the majority of respondents (n=63) hold middle management positions within their organisations. Furthermore, 11 respondents are executives/partners within their organisations, while 51, 48, and

37 respondents classify themselves as junior managers, senior managers, and trainee/audit clerks, respectively.



**Figure 4:5** Years of Experience Distribution

Figure 4.5 illustrates that the majority of respondents (51%; n=107) have 4-8 years of experience in the accounting profession. Following this, 39 respondents have 8-10 years of experience, while 34 respondents have three years or less, and 30 respondents have over ten years of experience.



**Figure 4.6** Audit Firm Experience



Figure 4.6 demonstrates that the majority of respondents (n=162) are from big four audit firms (Deloitte, EY, KPMG, and PwC), followed by 34 respondents from small and middle-sized firms, eight from the banking industry, and six from AGSA.

**4.2.2 Getting a feel of the data**

- **Test of Normality**

Verifying the normal distribution of a survey dataset is crucial for ensuring that the assumptions for parametric statistical tests are met, enhancing the sample's representativeness, and facilitating the extrapolation of findings to the broader population. This process strengthens the validity and reliability of the research, thereby improving the overall quality of the study. Typically, if the skewness value falls between -2 and +2 and the kurtosis value falls between -2 and +2, the distribution can be considered approximately normal.

	Descriptive Statistics				
	Variance Statistic	Skewness Statistic	Std. Error	Kurtosis Statistic	Std. Error
EAI1	1.175	-.815	.168	.160	.334
EAI2	.874	-.280	.168	.151	.334
EAI3	.928	-.264	.168	-.334	.334
EAI4	1.006	1.922	.168	3.106	.334
EAI5	.855	-.562	.168	-.207	.334
EAI6	.751	-.206	.168	-1.242	.334
NAS1	1.476	.450	.168	-.965	.334
NAS2	.885	-.146	.168	-.572	.334
NAS3	.851	-.343	.168	.228	.334
NAS4	.914	-.483	.168	.027	.334
NAS5	.928	.436	.168	-.422	.334
NAS6	.888	-.264	.168	-.368	.334
AT1	.850	-.229	.168	-.790	.334
AT2	.947	-.039	.168	-.582	.334
AT3	.829	1.586	.168	2.580	.334
AT4	.786	-.176	.168	-.092	.334
AT5	.753	-.109	.168	-.499	.334
AT6	1.354	.411	.168	-1.338	.334
FAE1	1.246	-.194	.168	-.656	.334
FAE2	1.152	.591	.168	-.680	.334
FAE3	.988	1.113	.168	.452	.334
FAE4	1.638	.427	.168	-1.395	.334
FAE5	.919	1.081	.168	.240	.334
FAE6	1.531	.520	.168	-1.262	.334
FAE7	.862	1.402	.168	1.710	.334
Valid N (listwise)					

**Table 4.2** Skewness and Kurtosis Values

Based on the above table, all skewness values are between -2 and +2, and all kurtosis (excluding EAI 4 and AT3) are between -2 and +2. Thus, the distributions for these variables are approximately normal.

### **4.3 Assessment of the Research Instrument**

This section provides an overview of the analysis and discussion of the results concerning the reliability and validity of the research instrument. The research constructs were assessed using a five-point Likert scale (ranging from Strongly Disagree to Strongly Agree). The first variable, Provision of Non-audit Services (NAS), was initially measured with six items (NAS1 - NAS6). However, NAS1 and NAS3 were excluded from the analysis as the Cronbach's alpha coefficient improved, indicating increased reliability of the data without these two items. The second variable, Audit Tenure (AT), was assessed using six items (AT1 - AT6), while the third variable, Former Auditor Employment (FAE), was evaluated with seven items (FAE1 - FAE7).

#### ***4.3.1 Testing the Goodness of the Data***

Reliability Analysis serves as a statistical tool to assess the consistency, stability, and repeatability of a survey. It quantifies the extent to which similar results can be obtained under consistent conditions, whether over time, across various evaluators, or using different instruments measuring the same concept. The primary goal of reliability analysis is to ensure that a survey or instrument produces accurate and consistent outcomes, thereby improving the overall quality of research findings.

- ***Cronbach Alpha***

Research conducted by Hair, Bush, and Ortinau (2009) suggests that for the Cronbach's Coefficient Alpha to be considered reliable, it should exceed 0.7. Conversely, Pallant (2001) proposes that a Cronbach's Alpha value exceeding

0.6 signifies a high degree of reliability. Landis and Koch's (1977, p. 168) benchmarks were employed to determine reliability, that is from:

- 0 to 0.20 as "slightly reliable"
- 0.21 to 0.40 as "fairly reliable"
- 0.41 to 0.60 as "moderately reliable"
- 0.61 to 0.80 as "substantially reliable"
- 0.80 to 1.0 as "almost perfect".

The internal reliabilities of each construct were assessed using Cronbach's alpha, and the results are summarised in Table 4:2 below. According to the benchmarks outlined above, Non-Audit Services exhibited "substantial reliability". Conversely, Audit Tenure and Former Auditor Employment demonstrated "almost perfect" reliability. Consequently, all constructs were deemed suitable for further investigation.

**Table 4.3** Cronbach Alpha Values

<b>Reliability Statistics</b>				
Variable	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items	Item deleted to improve Cronbach Alpha
Non-Audit Services	0.715	0.716	4	NAS1 and NAS3
Audit Tenure	0.815	0.816	6	
Former Auditor Employment	0.880	0.882	7	

### **4.3.2 Testing for Validity**

Validity, as defined by SÜRÜCÜ and MaslakÇI (2020), refers to the degree to which the measurement instrument accurately evaluates the intended quality or behaviour. Furthermore, validity is considered an assessment of the instrument's effectiveness in precisely measuring (SÜRÜCÜ & MaslakÇI, 2020).

- **Factor Analysis**

The **Kaiser-Meyer-Olkin (KMO)** measure evaluates the adequacy of sampling in a study. This measure assesses the strength of correlations among observed variables to determine if they are robust enough to conduct factor analysis. The KMO value ranges from 0 to 1, with higher values indicating better fit for factor analysis. Typically, a KMO value above 0.6 is considered acceptable, while values surpassing 0.7 are deemed good, and those exceeding 0.8 are regarded as excellent.

**Table 4.4** Kaiser-Meyer-Olkin and Bartlett's Test of Sphericity Output

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.877
Bartlett's Test of Sphericity	Approx. Chi-Square	1865.745
	df	136
	Sig.	<,001

In the above Table 4.4, the KMO value is 0.877, which indicates good sampling adequacy and suitable data for factor analysis.

**Bartlett's Test of Sphericity** assesses whether the correlation matrix of observed variables significantly differs from an identity matrix, which consists of ones on the diagonal and zeros elsewhere. A p-value less than 0.05 indicates strong correlations among variables, validating the use of factor analysis.

In Table 4.4, the approximate Chi-Square value for Bartlett's Test is 1865.745 with 136 degrees of freedom, and the p-value (Sig.) is <0.001. This result indicates significant correlations among the variables, supporting the suitability of factor analysis for the data. Overall, both the KMO measure (0.877) and Bartlett's Test of Sphericity (p-value <0.001) suggest that the data is appropriate for factor analysis, demonstrating adequate sampling and significant correlations among observed variables.

### 4.4 Hypothesis Testing

This section details the hypothesis results based on the Pearson Correlation and Linear Regression Analysis results.

- **Correlation**

Pearson product-moment correlation serves as an indicator of the degree of monotonic correlation between two variables. Monotonic correlation signifies a relationship where either (1) both variables increase or (2) one variable increases while the other decreases (Schober et al., 2018). According to Schober, P., Boer, C., & Schwarte, L. A., 2018, Several approaches have been suggested to translate the correlation coefficient into descriptors like “weak,” “moderate,” or “strong” relationship. The researcher used the table below for the interpretation of the correlation coefficient:

<b>Interpreting a Correlation Coefficient</b>	
<b>Absolute Magnitude of the Observed Correlation Coefficient</b>	<b>Interpretation</b>
0.00–0.10	Negligible correlation
0.10–0.39	Weak correlation
0.40–0.69	Moderate correlation
0.70–0.89	Strong correlation
0.90–1.00	Very strong correlation

Several stratifications (with different cutoff points) have been previously published.

**Figure 4.7** Interpretation of Correlation Coefficient (Schober et al., 2018)

The Pearson product-moment correlation was conducted to examine the relationships between the Auditor’s Independence (Dependent variable) and the Provision of Non-Audit Services, Audit Tenure, and the Former Auditor’s Employment at the client (Independent variables).

**Table 4.5** Summary of Correlations

		<b>Correlations</b>			
		AuditorIndependence	NonAuditServices	AuditTenure	FormerAuditorEmployment
AuditorIndependence	Pearson Correlation	1	.464**	.414**	.290**
	Sig. (2-tailed)		<0.001	<0.001	<0.001
	N	210	210	210	210

\*\* . Correlation is significant at the 0.01 level (2-tailed).

In the provided table, a positive correlation coefficient of 0.290 indicates a weak, positive linear relationship between former auditor employment at the audit client and auditor independence. This suggests that as the duration of former auditor employment increases, there is a slight tendency for auditor independence to also increase. The p-value of 0.001 suggests that this relationship is statistically significant, indicating that it is unlikely to have occurred by chance. Therefore, there appears to be a meaningful association between these variables and the population under study.

Furthermore, the Pearson correlation coefficient analysis demonstrates a moderately positive relationship between the provision of non-audit services and auditor independence ( $r = 0.464$ ,  $p < 0.001$ ). As the provision of non-audit services increases, the auditor's independence tends to increase as well.

Similarly, the analysis reveals a moderately positive correlation between audit tenure and auditor independence ( $r = 0.414$ ,  $p < 0.001$ ). This suggests a significant association between longer audit tenure and higher levels of auditor independence, although the strength of this relationship is moderate.

***Regression***

**Model Fit**

- **H1: Provision of Non-Audit Services (NAS)**

### Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.464 <sup>a</sup>	.215	.211	.60178	1.914

a. Predictors: (Constant), NonAuditServices

b. Dependent Variable: AuditorIndependence

### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.898	.215		8.841	<.001
	NonAuditServices	.450	.060	.464	7.551	<.001

**Figure 4.8** NAS Model Fit and Coefficients

The coefficient of determination ( $R^2$ ) for the relationship between the provision of non-audit services and the auditor's independence was found to be 0.215. This implies that changes in the provision of non-audit services can account for approximately 21.5% of the variability observed in the auditor's independence. Furthermore, the Durbin-Watson statistic was computed to be 1.914, indicating the absence of significant autocorrelation in the regression model's residuals. Hence, the assumption of residual independence is satisfied.

Considering the unstandardised B value (0.450), it can be interpreted that for every one-unit increase in the provision of non-audit services, the auditor's independence is expected to increase by 0.45 points.

- **H2: Audit Tenure (AT)**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.414 <sup>a</sup>	.172	.168	.61823	1.804

a. Predictors: (Constant), AuditTenure

b. Dependent Variable: AuditorIndependence

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.168	.206		10.542	<,001
	AuditTenure	.406	.062	.414	6.566	<,001

**Figure 4.9 AT Model Fit and Coefficients**

The coefficient of determination ( $R^2$ ) for the relationship between audit tenure and auditor independence was determined to be 0.172. This suggests that changes in audit tenure can account for approximately 17.2% of the variability observed in auditor independence. Moreover, the Durbin-Watson statistic was calculated as 1.804, indicating the absence of significant autocorrelation in the regression model's residuals. Hence, the assumption of residual independence is met.

Considering the unstandardised B value (0.406), it can be inferred that for every one-unit increase in audit tenure, the auditor's independence is anticipated to increase by 0.406 points.



- **H3: Former Auditor Employment (FAE)**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.290 <sup>a</sup>	.084	.080	.65005	1.690

a. Predictors: (Constant), FormerAuditorEmployment

b. Dependent Variable: AuditorIndependence

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	2.821	.159		17.719
	FormerAuditorEmployment	.236	.054	.290	4.373

**Figure 4.10** FAE Model Fit and Coefficients

The coefficient of determination ( $R^2$ ) for the relationship between the former auditor's employment at the audit client and the auditor's independence was determined to be 0.084. This suggests that approximately 8.4% of the variability observed in auditor independence can be explained by whether the former auditor was employed at the audit client.

Furthermore, the Durbin-Watson statistic was computed as 1.690, indicating the absence of significant autocorrelation in the regression model's residuals. Hence, the assumption of residual independence is maintained.

Considering the unstandardised B value (0.236), it can be inferred that for every one-unit increase in the duration of former auditor employment at the audit client, the auditor's independence is expected to increase by 0.236 points.

## 4.5 Summary of Hypothesis Results

### **H1: Provision of non-audit services does not affect the auditor's independence.**

The results indicate that the first hypothesis (H1) is not supported. There is a moderately positive linear relationship ( $r = 0.464$ ) between the provision of non-audit services and the auditor's independence. This suggests that as the duration of former auditor employment increases, there is a slight tendency for auditor independence to increase as well.

### **H2: The audit tenure does not affect the auditor's independence**

The findings indicate that the second hypothesis (H2) is not supported. There is a moderately positive relationship ( $r = 0.414$ ) between audit tenure and auditor independence. This suggests that as audit tenure increases, there is a tendency for the auditor's independence to also increase.

### **H3: The former auditor's employment with audit clients does not affect the auditor's independence.**

The findings suggest that the third hypothesis (H3) is not supported. There is a weak positive correlation ( $r = 0.290$ ) between the former auditor's employment with audit clients and the auditor's independence. This implies that as the duration of former auditor employment increases, there is a slight tendency for auditor independence to also increase.

## 4.6 Chapter Summary

This chapter centred on the analysis of quantitative data collected via the SPSS tool. It delved into statistical data through Descriptives, Reliability, Validity, Correlations, Model Fit, and Hypothesis Testing. Interestingly, none of the three hypotheses were supported. The subsequent chapter provides a critical

discussion of the study findings vis-à-vis the research objectives outlined in the initial chapter of this study.

# CHAPTER 5: DISCUSSION OF RESULTS

## 5.1 Introduction

In the preceding Chapter Four, a comprehensive analysis and interpretation of data collected from a diverse sample comprising qualified chartered accountants, potential chartered accountant registrants, and trainees enrolled in a SAICA-accredited training program were presented. This analysis was grounded in data obtained from 210 individuals. This current chapter meticulously delves into the research findings, focusing on descriptive analytics of the research respondents and the examination of three hypotheses to determine whether the provision of non-audit services, audit tenure, and former employment of auditors by the audit client affect auditors' independence, all contextualised within the framework of existing literature. Subsequently, connections are drawn between the research findings and the established literature. Finally, the chapter concludes by offering the researcher's insights and perspectives on the implications of the results.

## 5.2 Main Findings

This section focuses on the main findings of the Perceptions of External Auditors' Independence in South African Private Audit Firms.

### *5.2.1 Demographic Profile of Respondents*

Based on the findings, it's evident that the majority of external auditors in South Africa possess a Post Graduate Diploma/Honours Degree (94.8%). This level of education aligns with the requirements set by professional bodies like SAICA, ensuring auditors have the necessary competence to provide independent and high-quality services. Moreover, adherence to the IRBA Code of Professional Conduct emphasises the importance of maintaining professional knowledge and skills to deliver competent service.

In terms of age distribution, individuals aged between 30 and 39 dominate the external audit profession, comprising 70% of the sample. This trend reflects broader demographic trends in the profession, with a significant proportion of chartered accountants falling within this age bracket. However, there are emerging concerns about attracting younger generations, such as Gen Z, to careers in auditing, potentially impacting future workforce dynamics.

Furthermore, the study highlights that Big Four Audit Firms, including Deloitte, EY, KPMG, and PwC, dominate the audit firm landscape, accounting for 77.1% of respondents' experiences. This finding mirrors SAICA member statistics, indicating a substantial presence of large firms in the external audit sector.

### ***5.2.2 H1: Provision of Non-Audit Services***

The analysis indicates that auditors perceive a significant impact of the provision of non-audit services on their independence, leading to the rejection of hypothesis H1. The study reveals a moderately positive relationship between the provision of non-audit services and auditor independence, suggesting that as the duration of former auditor employment increases, auditor independence tends to also increase.

These findings are consistent with previous research. Goldwasser (1999) suggests that management advisory services can enhance auditors' objectivity by improving their understanding of the client. Similarly, Akinbowale and Babatunde (2017) argue that providing non-audit services enables auditors to gain insights into client information, allowing for comprehensive evaluation of transactions and operations.

The study also highlights the segregation between audit and non-audit service teams, ensuring independence in the execution of their respective duties. However, it's essential to acknowledge the study's limitation in focusing solely on auditors within the population. Future research should explore this variable across diverse populations to provide a more comprehensive understanding.

### **5.2.3 H2: Audit Tenure**

The analysis reveals that the perceived tenure of an audit firm serving a client influences the auditor's independence, showing a moderately positive relationship and leading to the rejection of hypothesis H2. This suggests that auditor independence increases with extended audit tenure.

This finding aligns with literature suggesting that prolonged association between auditors and clients can enhance auditor independence by improving their understanding of client needs and complexities (Lokman & Bakri, 2020). This heightened understanding is believed to lead to superior audit reports and overall quality. Therefore, recommendations regarding auditor and audit firm rotation policies should be thoroughly evaluated by professional bodies and regulators before implementation.

While adopting such policies could offer safeguards for investor interests, the potential adverse effects, including increased costs and loss of accumulated knowledge, should be carefully considered (Yip & Pang, 2017; Qawqzeh et al., 2018). Professional bodies like IRBA should reassess rotation restrictions and evaluate firm rotation recommendations before mandating them. This will contribute to restoring investor confidence in the accounting profession and facilitating more informed investment decision-making while upholding auditors' professionalism. Further investigation into this variable across diverse populations is warranted to deepen our understanding.

### **5.2.4 H3: Former Employment of auditor by the audit client**

The results indicate that the third hypothesis (H3) is not supported, as there is only a weak positive correlation between a former auditor's employment with audit clients and the auditor's independence.

These findings diverge from Ahmad's (2015) study, which suggested that the appearance of auditor independence is negatively impacted by auditor-client employment issues. The discrepancy in findings underscores the complexity of

this relationship and the need for further research to explore the nuances involved.

It's important to acknowledge a limitation in the sample composition of this study, as it exclusively includes auditors who may have a vested interest in securing employment with their audit clients. This potential bias in opinions could have influenced the results. Therefore, future research endeavours should aim for a more diverse participant pool to mitigate this limitation and provide a more comprehensive understanding of the topic.

**5.2.5 Relationship between the independent variables**

**Table 5.1** Interdependencies between independent variables

		NonAuditServices	AuditTenure	FormerAuditorEmployment
NonAuditServices	Pearson Correlation	1	.634**	.467**
	Sig. (2-tailed)	0.000	0.000	0.000
	N	210	210	210
AuditTenure	Pearson Correlation	.634**	1	.579**
	Sig. (2-tailed)	0.000	0.000	0.000
	N	210	210	210
FormerAuditorEmployment	Pearson Correlation	.467**	.579**	1
	Sig. (2-tailed)	0.000	0.000	0.000
	N	210	210	210

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Correlation between the provision of non-audit services and audit tenure**

A notable positive correlation was found between the provision of non-audit services and audit tenure ( $r = 0.634$ ,  $p < 0.001$ ), suggesting that as the duration of audit tenure increases, there is a corresponding rise in the provision of non-audit services.

**Correlation between the provision of non-audit services and former auditor employment**

Likewise, a significant positive correlation was identified between the provision of non-audit services and former auditor employment ( $r = 0.467$ ,  $p < 0.001$ ),

indicating that individuals previously employed as auditors by the client are more likely to receive non-audit services.

***Correlation between audit tenure and former auditor employment***

Additionally, a significant positive correlation was found between audit tenure and former auditor employment ( $r = 0.579, p < 0.001$ ), suggesting that longer audit tenures are associated with a higher likelihood of former auditor employment at the audit client.

The substantial correlation between these variables suggests potential interdependencies and underscores the importance of further investigation in future research.

**5.3 Summary of Findings**

In conclusion, the findings of this research study led to the rejection of three hypotheses. Hypothesis 1 (H1) was rejected, revealing a moderately positive relationship between the provision of non-audit services and auditor independence. Similarly, Hypothesis 2 (H2) was rejected, showing a moderately positive association between audit tenure and auditor independence. Hypothesis 3 (H3) was also not supported, indicating a weak positive correlation between former auditors' employment with audit clients and their independence.

	<b>Hypothesis</b>	<b>Results</b>
<b>H1</b>	Non-audit services do not affect the auditor's independence	Rejected
<b>H2</b>	The audit tenure does not affect the auditor's independence	Rejected
<b>H3</b>	The former auditor's employment with audit clients does not affect the auditor's independence.	Rejected



## 5.4 Chapter Summary

This chapter analysed the findings from the quantitative data examined and concluded with the researcher's commentary. After interpreting these findings and correlating them with existing literature in various academic journals, the following observations were made:

**H1:** The provision of non-audit services has a positive effect on auditor independence.

**H2:** Audit tenure positively influences auditor independence.

**H3:** Employment of former auditors with audit clients positively impacts auditor independence.

In conclusion, all three proposed hypotheses were rejected.

# CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

## 6.1 Introduction

This chapter presents a conclusion of the main findings of this study and recommendations for future research.

## 6.2 Conclusion of main findings

After interpreting these findings and correlating them with existing literature in various academic journals, it was concluded that all three proposed hypotheses were rejected. Hypothesis 1 (H1) demonstrated a moderately positive correlation between the provision of non-audit services and auditor independence. Hypothesis 2 (H2) indicated a moderately positive relationship between audit tenure and auditor independence. Similarly, Hypothesis 3 (H3) showed a weak positive correlation between the employment of former auditors at audit clients and auditor independence.

## 6.3 Recommendations

Following the analysis of results and their validation against multiple academic publications, it has been concluded that all three proposed hypotheses should be rejected:

**H1:** There is a positive effect of the provision of non-audit services on auditor independence.

**H2:** Audit tenure positively influences auditor independence.

**H3:** Employment of former auditors with audit clients positively impacts auditor independence.

## **6.4 Suggestions for future research**

This study contributes to the existing knowledge base on Perceptions of External Auditors' Independence within South African Private Audit Firms. The insights gleaned from this investigation serve as a fundamental reference for future research aimed at exploring the diverse factors influencing Perceptions of External Auditors' Independence in South African Private Audit Firms.

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# APPENDIX A: Research Instrument

## Section A:

### *Background on Demographics*

Please tick (X) your answer in the appropriate boxes or respond by writing if required.

1. Gender:  Female  Male

2. Age:  21-29 years old  30-39 years old  40 and above

3. The highest education level

Undergraduate degree  Post Graduate Diploma/Honours degree

Master's degree  other (please specify) \_\_\_\_\_

4. Years of work experience:

3 years or less  Over 10 years

4 - 10 years

5. Occupational Level

Executive/Partner  Senior Manager  Middle Manager

Junior Manager  Trainee/audit clerk

5. Audit Firm Experience

Big Four audit firm<sup>1</sup>  Small and Middle size firm

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<sup>1</sup> EY, KPMG, Deloitte, PWC

## Section B:

This section aims to collect respondents' opinions regarding the factors that influence the auditors' ability to maintain their independence in private audit firms in South Africa. Please provide a suitable scale based on an opinion by marking (X) on the spaces that indicate your decision from the range of possibilities that vary from Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), "strongly Agree (SA),

	<b>QUESTIONS</b>	<b>Strongly Disagree (SD)</b>	<b>Disagree (D)</b>	<b>Neutral (N)</b>	<b>Agree (A)</b>	<b>Strongly Agree (SA)</b>
<b>A</b>	<b>Auditor independence</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	The effectiveness of auditing is significantly dependent on the independence of auditors in mind and their appearance.					
2	Auditors exercise their independence as auditors in their audit firms during their duties.					
3	Audit firms support the principle of auditors maintaining independence while performing their audit responsibilities.					
4	Auditor independence does not affect audit opinion.					
5	Users of financial statements rely on audit reports issued by independent auditors.					
6	The existence of the auditing profession is attributed to the independence and competence of auditors.					

<b>B</b>	<b>Non-Audit Services</b>					
7	Audit firms should be able to offer services other than auditing to their audit clients.					
8	Non-audit services affect the auditor's independence.					
9	Non-audit services improve the auditor's knowledge of the client.					
10	In their financial statements, auditing firms should disclose non-audit fees.					
11	More than 25% of an auditing firm's income comes from non-audit services.					
12	Restrictions on non-audit services may improve investors' confidence in auditor independence.					
<b>C</b>	<b>Audit firm's tenures</b>					
13	The auditor's independence is affected by how long they have audited the client.					
14	When audit firms have worked for one client for a long time (like more than ten years), they lose their independence.					
15	Auditors are more independent because they have worked for the same client for a period of time.					
16	When auditing clients, a short-term audit tenure (Rotation every five years) makes auditors more independent.					
17	Management can influence the work of the auditors with whom they have worked for a long time, compromising their independence.					
18	The auditor's income depends on retention.					

<b>D</b>	<b>Former auditors' employment with audit clients</b>					
19	If an auditor wants to work for a client he or she is already auditing, it affects the auditor's independence.					
20	When an auditor joins a client company, the remaining audit engagement team's independence is compromised if:					
	<ul style="list-style-type: none"> <li>• The auditor had been an audit partner.</li> </ul>					
	<ul style="list-style-type: none"> <li>• The auditor was a member of the engagement team but not an audit partner.</li> </ul>					
	<ul style="list-style-type: none"> <li>• The auditor's current responsibility at the client company involves the preparation of the company's financial statements.</li> </ul>					
	<ul style="list-style-type: none"> <li>• The auditor's current responsibility at the client company does not involve the preparation of the company's financial statements.</li> </ul>					
21	A 12-month waiting time before an auditor joins a client company is sufficient to protect auditor independence.					
22	After a fellow auditor joins the client company, the remaining auditors on the audit engagement team will no longer be able to do their jobs without being influenced by the client company.					



## APPENDIX B: Participant Information Sheet

### Participant Information Sheet (PIS)

Dear Sir / Madam

My name is Kgadi Maserumule, I am a Masters student in Business Administration at the University of the Witwatersrand, Johannesburg. My supervisor is Dr Kagiso Pooe. I am conducting a research study about external auditors' independence. The study title is Factors Influencing External Auditors' Independence in South African Private Audit Firms.

I am inviting you to answer a questionnaire/survey. If you decide to take part, your participation in this research study will last about 20 minutes. The questionnaire will take place online at any time.

With your permission, I would like to store your answers to the questionnaire. This data will be stored in a password-protected computer for 5 years and deleted after 5 years. Only the researcher will have access to the data.

During the research activity, I will need to ask for some personal information about you, including gender, age, highest education level, years of work experience, and occupational level.

The survey will be confidential and anonymous. When I share the results of the research study, I will not include your name or anything else that could identify you.

If you decide to take part in the research study, it should be because you want to volunteer. You do not have to take part. You can stop being in the study at any time. You do not have to answer any questions if you do not want to. You will not get any direct benefits if you choose to join the research study. You will not lose any services, benefits or rights you would normally have if you decide not to join. Taking part in the research study will not cost you anything. You will not be paid for being in this research study.

The risks for this research study are no more than what happens in everyday life. If the questions asked may make you feel sad or upset, you may stop the survey and continue another time. If you need some support or counselling services following the survey, these are available free of charge at The South African Depression and Anxiety Group (SADAG).

This research study will be written up as a research report. If you would like to receive a summary of this report, I will be happy to send it to you.

If you have any questions during or afterwards about this research study, feel free to contact me or my supervisor on the details listed below. If you have any concerns or complaints about the ethical procedures of this research study, you are welcome to contact the University Human Research Ethics Committee (Non-Medical), telephone +27(0) 11 717 1408, email [hrecnon-medical@wits.ac.za](mailto:hrecnon-medical@wits.ac.za).

Yours sincerely,  
Kgadi Maserumule

Researcher:  
Kgadi Maserumule, 966772.students@wits.ac.za

Supervisor:  
Dr Kagiso Pooe, tk.pooe@wits.ac.za

## APPENDIX C: Consent Form

### Participant Consent Form

Title of project: Factors Influencing External Auditors' Independence in South African Private Audit Firms

Name of researcher: Kgadi Maserumule

I, ....., agree to participate in this research project.

I agree to the following:

(Please circle the relevant options below)

The research study was explained to me. I understand what this study is about.	YES	NO
I understand that I can volunteer to take part in the study	YES	NO
I agree that the answers from the survey will be stored.	YES	NO
I agree that my personal information (gender, age, highest education level, years of work experience, and occupational level) may be used for the descriptive analysis of the sample.	YES	NO
I agree that my participation will remain anonymous (my name or other identifying data will not be used by the researcher in their research report)	YES	NO

..... (signature)

..... (Name of participant)

..... (date)

# APPENDIX D: Ethics Clearance Certificate

Graduate School of Business Administration  
University of the Witwatersrand, Johannesburg




Wits Business School Ethics Committee  
Constituted under the University Human Research Ethics Committee (Non-Medical)

## Ethics Clearance Certificate

Ethics protocol number: WBS/BA966772/252

*This certificate is only valid with a legitimate ethics protocol number and signed by the Researcher (below).*

Project title	Perceptions of external auditors' independence in South African private audit firms
Investigator / Researcher	Ms Kgadi Maserumule
Nature of Project	MBA (Research Article)
Decision of the Committee	Approved, provided stakeholders and participants are guaranteed anonymity and confidentiality.
Issue Date of Certificate	2023-08-10
Expiry date	Date of submission of the project / research report
Chairperson	Dr Pius Oba  ☎ +27 11 717 3976 ☎ +27 82 733 6587 ✉ pius.oba@wits.ac.za

### Declaration by Researcher

*One copy must be signed by the Researcher and returned to the Chairperson of the Wits Business School Ethics Committee.*

I fully understand the conditions under which I am authorized to carry out the abovementioned research and I guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I undertake to resubmit the protocol to the Committee.

Signature

30 August 2023

Date:

## APPENDIX E: Title Approval

UNIVERSITY OF THE  
WITWATERSRAND,  
JOHANNESBURG



Private Bag 3 Wits, 2050

Fax:

Tel:

Reference: Ms Jennifer Mgolodela  
E-mail: [jennifer.mgolodela@wits.ac.za](mailto:jennifer.mgolodela@wits.ac.za)

30 January 2024

Person No: 966772

PAG

Miss K Maserumule  
P O Box 1446  
Chuenespoort  
0745  
South Africa

Dear Miss Kgadi Maserumule

### Master of Business Administration: Approval of Title

We have pleasure in advising that your proposal entitled *Perceptions of external auditors; independence in South African private audit firms* has been approved. Please note that any amendments to this title have to be endorsed by the Faculty's higher degrees committee and formally approved.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Bosman'.

Mrs Marike Bosman  
Faculty Registrar  
Faculty of Commerce, Law and Management