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Factors influencing the independence of government auditors

Abstract

The auditor provides assurance that the financial statements are true and fair, and prepared according to the generally accepted accounting principles. Unfortunately, many failures in corporation have caused concerns to the auditing profession. Auditors are deemed not to be independent, as reflected in many cases of companies' financial distress around the world and in Malaysia. The current research examined whether non-audit services fees, audit competition and audit tenure would influence perceived auditors' independence of government auditors. Questionnaires were distributed among the respondents to rate auditors' independence based on eight scenarios. Each of the auditor-client conflict scenarios consisted of eight different manipulations of independent variables. For the purpose of this study, two other variables, namely client's financial position and client's company size were controlled. The respondents were required to rate their perceptions of auditors' independence on a Likert scale. Overall, 73 government auditors participated in this study. The findings indicate that high non-audit service and high audit competition affect the perceptions of auditors' independence. Also, the government auditors have been found to be consistent in their judgment. The current research contributes to the accounting research knowledge in two ways. First, the framework of the current research supported by the Brunswick Lens Model could explain the outcomes. Second, providing evidence that the government auditors are reliable would lead to producing quality judgment.

Keywords: auditors' independence, government auditors, experiment.

JEL Classification: M42.

Introduction

Audit provides assurance that the financial statement is 'true' and 'fair'. In other words, it ensures that the financial statements are in accordance with generally accepted accounting principles and the Companies Act 1965. Malaysian Institute of Accountant (MIA) By-Laws B-1 (2005) defines the concept of independence to be independence of "mind" and "appearance". In addition, the MIA By-Laws provided guidelines to external parties comprising of government and professional bodies; and internal parties, comprising of the audit firms, to safeguard independence.

However, even with guidelines in place, external auditors are deemed not to be independent, as reflected in many cases of companies' financial distress around the world; for example, in the United States, the case of Enron Corporation and the WorldCom; much earlier in the UK, the case of Barings Bank; in Australia, the case of HIH Insurance and in Italy, the case of Parmalat.

The downfall of corporation around the world has raised concerns and questions mainly with respect to the quality of accounting practices and disclosure. Audit firms and companies in Malaysia are no exceptions to the situation as discussed above. Over the years, the cases of Cold Storage Malaysia Berhad (CSM), Transmile Group Berhad, Megan Media, Bumiputra Malaysia Finance (BMF), and Sime Bank, to name a few, were given huge coverage in the local newspapers.

The Audit Report 2004 highlighted several irregularities of several departments (Sunday Star, 2nd Oct. 2005). Amongst others, ineffective management of assets in the agricultural department and a government-owned hotels franchise were the problems mentioned in the report. Given that auditing firms plays a significant role in maintaining public trust and confidence in accounting profession, the questions of integrity and independence of auditors whether they are private or government auditors have been widely debated.

A significant number of previous studies, concerning perceptions of auditors' independence, investigated various variables that influence the perceptions of auditors' independence. These studies also examined the perceptions of auditors' independence under specific and general circumstances that were conducted on a variety of respondents ranging from preparers to users of financial statements. Moreover, several other studies performed a cross-cultural comparison on the perceptions of auditors' independence. However, the main focus of the earlier studies was more on external or private auditors. Since Malaysia is moving towards achieving a high income economy by 2020 and has put efforts in improving public services and efficiency, the current study concentrates on the issue of government auditors' independence. Hence, the objective of the current study is to examine whether non-audit services fees, audit competition and audit tenure influence perceived auditors' independence of government auditors.

1. Auditors' independence

The accounting profession in Malaysia is required to abide to the MIA By-Laws (on Professional Conducts

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and Ethics). The MIA By-Laws (on Professional Ethics and Conducts) has defined independence of auditors as to be independence of mind and in appearance:

◆ Independence of mind (independence in fact)

The state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity and exercise objectivity and professional scepticism.

◆ Independence in appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's or a member of the assurance team, integrity, objectivity or professional scepticism had been compromised.

Accordingly, auditors' independence is measured through two perspectives. First, independence of mind (in fact) which means having sufficient knowledge, experience and ability to make decision without depending on others. The other perspective is independence in appearance that comes from a third party's evaluation. The definition spells out that 'a reasonable third party would reasonably conclude', in other words, this definition enforces that auditors must be seen or perceived to be independent of their clients by others. It is, therefore, crucial that the auditor is able to preserve his/her image and remain independent from his clients.

2. Government auditors

The government auditors serve different sets of management and users (Samelson, Lowensohn & Johnson, 2005). In general, Arens et al. (1999) defined the government auditors as those who work for the Office of the Auditor General (p. 14). In other words, those who conduct audit on behalf of the Auditor General are considered to be government auditors. The appointment of government auditors is, thus, similar to the other posts in the government departments.

However, the Auditor General is appointed by Yang di Pertuan Agung. The Federal Constitution stipulates matters regarding appointment and remuneration (Article 105), powers and duties (Article 106), and audit reports (Article 107). There are seventeen articles that addressed the government financial matters in the Federal Constitution. Other than that, the legal procedures regarding financial accounting and reporting for government sectors can be found in the Financial Procedure Act 1975, while Treasury Circulars are issued when new regulations are

introduced. Given the above description, the financial interest of the country is controlled by the Parliament, Treasury, legislatures (the Financial Procedure Act 1957 and the Audit Act 1957) and the Accountant General and Auditor General Offices.

The Auditor General is appointed by the Yang di Pertuan Agung, to enable him (her) to be independent of executive influence. Gendron and Cooper (2001) cited Normanton (1966) who emphasized that state auditors must be independent from the executives as the former represent a powerful means of monitoring the latter. They also cited Funnel (1998) who asserted that the legislature ability to control executives depends heavily upon the state auditors whose role is to ensure that the legislature is informed of the executive activities and that being independent enables the state auditors to criticize the administration and the executives. However, they also mentioned that Power (1997) highlighted the risk that political policies state auditors encountered while conducting the task to protect misuse of money, waste, inefficiency and financial abuse.

The features of public sectors accounting are different from the commercial sectors in various ways (Samelson et al., 2005). Specifically, the usual audit procedure in the private sectors has to be altered to address government unique features such as fund accounting, compliance to law and regulations, encumbrances, budget-to-actual comparison statements, specific audit reports, basis of accounting and assessment of internal reports (p. 143). Furthermore, the nature and objectives of public sectors lead to different accounting concepts and principles in the public sectors accounting practices. Government departments are established to serve the public. Many of these services, such as health, education and utilities, are more of social obligations and not profit seeking. As accounting in public sectors has different sets of account to cater for different users of financial statements, the accountants and auditors in the government sectors abide to more rules and regulations.

3. Auditing in the public sector

Arens et al. (1999) listed three types of audits, namely (1) financial statement audit, where the overall financial condition of a company is determined; (2) operational audit that evaluates efficiency and effectiveness of a company's operating procedure; and (3) compliance audit which determines whether relevant laws and regulations are complied. Government auditors are concerned with accordance with laws and regulations (Arens et al., 1999). Fatimah et al. (2002), highlighted at least three objectives in conducting audit in the government sectors, namely:

(1) to ensure compliance with law and regulations; (2) to expose factors that contribute to inefficiency, ineffectiveness, diseconomy and embezzlement of resources; and (3) to form an opinion on the financial statements.

Hence government auditors conduct different audit tasks and are governed by more laws to achieve these objectives. Table 1 summarizes the related law to appoint government auditors and the Constitutions and Acts that govern their work.

Table 1. The appointment and responsibilities government auditors

Respondents	Appointments	Responsibilities
Government auditor	Articles 98,105, 106, 107 of the Federal Constitutions.	Federal Constitution, Financial Procedure Act 1957, Audit Act 1957, Local Authority Act 1976, Statutory Bodies Act 1980, Treasury Instructions, Treasury Circulars.

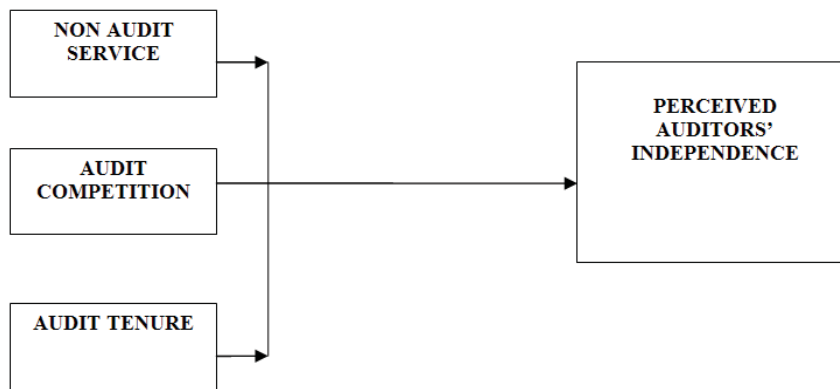


Fig. 1. Theoretical framework

5. Hypotheses development

5.1. Non-audit service fees and auditors' independence. The corporate downfalls in the recent years have been mostly associated with audit firms providing non-audit services to their audit clients. Regulating bodies expressed concerns over the phenomena and passed new laws, such as the U.S. Sarbanes-Oxley. The MIA By-Laws stated the non-audit service fee must not exceed 15% of audit firm's total revenue. However, it did not specify the maximum limit of non-audit service fees receivable from a client. Starting the year 2001, companies are required to disclose non-audit services fee in the annual reports.

The above mentioned researches had inconclusive findings regarding the relationship of providing non-audit service and external auditors' independence. In other words, some researchers found that providing non-audit service impairs auditors' independence (for example, Shockley, 1981; Barlett, 1993; Gul, 1989; Teoh & Lim, 1996) while others found no association, for example, Knapp (1985); and conditional

4. Literature review, theoretical framework and hypothesis development

4.1. Brunswik lens models. The current study uses the Brunswik Lens Model as the theoretical framework to explain the relationship among the independent variables and the dependent variable. Researches in behavioral approach generally are based on the Brunswik Lens Model (for example, Solomon & Shield, 1999; and Basodan, 1994). The Brunswik's lens model focuses on the input and output of a judgment/decision-making. According to Brunswik's Lens Model, inputs are the surrounding cues; while the judgment to be made is the output. In the current study, the inputs are the independent variables, namely, non-audit services fees, audit competition, and audit tenure. The output in the current study is perceived auditors' independence. The audit judgment consistency has been also evaluated. Figure 1 describes the theoretical framework.

(non) association (for example, Pany and Reckers, 1988). Whilst most of these studies were conducted in the Western countries, the studies in Malaysia were replication of the earlier Western studies. Furthermore, different respondent groups were utilized in their studies that might lead to such results.

However, in Malaysia Nur Barizah et al. (2005) and Teoh and Lim (1996) found a negative relationship between providing NAS and perceived auditors' independence. Moreover, the MIA-By Laws express providing non-audit services to audit clients as potentially exposing auditors to self-review, self-interest, advocacy and intimidation threats. In other words, the regulating body perceives providing non-audit services as likely to impair auditors' independence. Taking these factors together, the current study hypothesizes that:

H1: High percentage of non-audit service received from a client leads to higher likelihood of impairment of the perceptions of government auditors' independence.

5.2. Audit tenure and auditor independence. The duration of providing auditing service to a client is seen as influential in impairing auditors' independence that regulating bodies in the U.S. imposed rotation of audit partner as one of prevention measures. In other word, regulating bodies associate longer audit tenure could cause auditors to compromise independence; therefore, audit rotation was suggested. In Malaysia, the MIA suggested similar guidelines as proposed rotation of audit partner and peer review. However, the extent to such practice is not available.

Previous research examined if audit tenure had a negative impact as claimed by the regulating body. However, empirical evidence varies. For example, Shockley (1981) did not find audit tenure to impair independence, but Mansi et al. (2005) associated longer audit tenure as likely to impair with independence (negative relationship). In contrast Carcello and Naggy (2004), Geiger and Raghunandan (2002), Ghosh & Moon (2005) and Johnson et al., (2002) found positive relation between audit tenure and auditors' independence. Nur Barizah et al (2005) supported negative association of audit tenure and auditors' independence in a Malaysian study. Moreover, the MIA-By Laws express long association with audit clients as potentially expose auditors to familiarity threats. In other words, the regulating body perceives long auditor-client relationship as likely to impair auditors' independence. Given such backgrounds, the current study hypothesizes that:

H2: Long audit tenure leads to higher likelihood of impairment of the perceptions of the government auditors' independence.

5.3. Audit competition and auditors' independence. The competition in auditing market is allegedly to influence auditors' independence. However, previous studies examining competition have found contradictory results as to whether audit competition would impair auditors' independence. For example, Shockley (1981) found that high competition impaired auditors' independence, while Knapp (1985) and Gul (1991) discovered insignificant associations. Other researchers associated auditing fees or audits' concentration with audits' competition (e.g., Gul, 1999; Francis and Stokes, 1986; Simunic, 1980).

Based on Malaysian audit market, Surail et al., (2007) found that the auditing market in Malaysia is competitive, while Nur Barizah et al. (2001) found that high competition impaired auditors' independence. Furthermore, approximately 70% of the listed companies were audited by Big-5 while the remaining was audited by non-Big 5 (Surail et al., 2007). Hence, contest for audit clients are seen to be

intense. Given the competitive background in Malaysia, the current study hypothesizes that (in alternate form):

H3: High audit competition leads to higher likelihood of impairment of the perception of government auditors' independence.

5.4. Judgment consistency of government auditors. Consistency as defined by Solomon and Shields (1999) is the intra-subject correlation between two different judgments. In other words, it measures the stability response of each respondent in evaluating different judgment. Solomon and Shields (1999) also recorded consistency testing in the previous studies (e.g., Gaumnitz et al., 1982; and Schneider, 1985). Furthermore, Ashton (1974) asserted that variation in judgment is seen as fluctuation in auditing quality. Thus, consistency in judgment is necessary to guarantee auditing quality. The current study, therefore, hypothesizes that (in alternate form):

H4: There is judgment consistency on perceived auditors' independence of government auditors.

6. Methodology

The unit of analysis in the current study is government auditors. They are appointed by the General Auditor Office and conduct various types of audits for the public sectors. The government auditors in all states of Peninsular Malaysia and East Malaysia were included in the study. However, those from the state of Pulau Pinang were not included as they had participated in the pilot testing procedure. The auditors were selected based on two criteria: possessing Bachelor Degree and working for a minimum of three years. The samples were deemed to be able to evaluate and deal with conflict better, since they were educated and experienced. Based on Kirk (1995), thirty-two respondents is an appropriate size for this design.

6.1. Data collection. A letter to the Director of Human Resource of the Auditor General office in Putrajaya was written requesting his permission to distribute questionnaire. The letter detailed the objectives of the study and requested for auditors of the department to participate. The letter also specified participants to have a Bachelor Degree, with at least three years of working experience. After two weeks, a meeting was then held with the Director to discuss the matter.

A consent letter was issued for the researcher to contact the Auditor General Office of each state. The questionnaire, cover letter and the consent letter were sent to each state of Auditor General Office. After another two weeks, several follow-up calls were made to each office to remind them to participate and

return the answered questionnaires. The questionnaires were all received from the respondents within one month.

6.2. Measurement of variables. *6.2.1. Independent variables.* The three independent variables are non-audit service fees, audit competition and audit tenure at two treatment levels each. In other words, the current study undertook 2 x 2 x 2 within-subject experimental design. Table 2 shows the treatment levels for the independent variables. With regards to this design, all the subjects were given the same treatment.

Table 2. Measurement of independent variables

Independent variables	Treatment levels
Non-audit service fees	a. High NAS fees (more than 15%) b. Low NAS fees (less than 15%)
Audit competition	a. High competition b. Low competition
Audit tenure	a. High audit tenure (more than 9 years) b. Low audit tenure (less than 9 years)

6.2.2. Dependent variable. The dependent variable for this study is perceived auditors' independence. The respondents were requested to evaluate the action of the auditors on a seven-point scale regarding their perceptions of auditors' independence.

6.3. Research instrument. The dependent variable is perception of auditors' independence that was depicted in a case scenario. An auditor-client conflict scenario with manipulated variables at various level of treatment was presented to the respondents. In other words, each questionnaire consisted of eight scenarios, including three independent variables manipulated each at two levels as shown in Table 3.

Table 3. Cases combination

Case	NAS	AC	AT
1	High	High	High
2	Low	High	High
3	High	High	Low
4	Low	High	Low
5	High	Low	Low
6	Low	Low	High
7	High	Low	High
8	Low	Low	Low

The scenarios began with a description of an auditor-client conflict situation of a disagreement between an auditor and its audit client concerning materiality of unrecorded liabilities. The management and the auditor had different views on the matter. This was followed by presenting the manipulated variables. Respondents were requested to assess the action of the auditor based on the background of the company in paragraph 1; the

conflict in paragraph 2; and the manipulated variables in paragraph 3.

The study also controlled two variables, namely, the respondent and the cases to be evaluated. The first control variable was the respondent, i.e., the government auditors were required to have a Bachelor's degree and three years of working experience since the previous studies found these two factors as the important ones which could affect perceptions. As for the cases, the background of the company was stated to be a public listed company and have good financial condition, as shown in Table 4. This background was standardized across all the eight cases so that the government auditors could have a consistent understanding of the company that they were evaluating.

Table 4. Measurement for control variables

Control variables	Measurement of current study
Client's company size	Public listed company
Client's financial condition	Good liquidity, solvency and financial ratio

The respondents were then required to evaluate perceived auditors' independence in each of the eight cases. This scenario was initially developed and tested by Knapp (1985). It was used in the previous studies concerning auditor-client conflict resolution (e.g., Gul, 1991; Patel and Psaros, 2000), ethical reasoning and locus of control (Tsui & Gul, 1994) and cross-cultural whistle blowing mechanism (Patel, 2003). One of the cases is illustrated in Table 5.

Table 5. Example of case number one – high non-audit service, high audit competition and high audit tenure

<p>MHD Food Industry Berhad (MHD) is a listed public company established in Malaysia. The company is classified under the Trading and Services on the main board of the Bursa Malaysia. The financial condition of the company is stable having liquidity and solvency ratios favourably to industry averages. Net income grows steadily over the past five years.</p> <p>An audit, a dispute between MHD and its auditors has arisen over the materiality of certain unrecorded liabilities discovered by the auditors. The unrecorded liabilities consist primarily of expenses incurred in last year that was neither paid nor recorded in MHD's accounting records. MHD's controller argues that the total amount of the unrecorded liabilities is immaterial and therefore, it is unnecessary to adjust the financial statements. The auditors feel the amount is material and that the last year financial statements should be adjusted accordingly. Technical accounting standards provide very little guidance in determining the materiality of given amounts in financial statements. Thus, MHD's management believes that they know what financial statement readers would or would not deem to be a material amount.</p> <p>Additional Information</p> <p>The audit firm that audits MHD has been providing audit services to the company for more than nine years. The immediate audit market within which the auditor operates is highly competitive as there are a large number of audit firms offering similar services. The audit firm also offers consultancy services to MHD and the consultancy fees is more than 15% of the audit firm's total revenue.</p>
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7. Data analysis

As the current research adapted within-design experiment, the participants evaluated all the eight level of treatments. Based on this design, the GLM (Repeat Measures) was used to test the hypotheses as it is a statistical tool capable to detect effect of categorical independent variables on a continuous dependent variable. This includes detecting main effect of independent as well as detecting the simultaneous effect of several combinations of variables on the dependent variable (the interaction effects). GLM (Repeat Measures) is able to specify each combination in its analyses and capture the effect of each independent variable as well as interaction effects on the dependent variable.

Previous research conducted different experiment designs. For example, Gul (1989) combined between – and within – subjects design), thus, utilized different analyses. Given the objectives of the current research, GLM (Repeat Measures) is the best analysis to test the hypotheses.

On the other hand, to test the consistency of judgment, the differences between the two scenarios were analyzed using ANOVA. According to Sekaran (2003), ANOVA measures the mean differences of more than two groups on one dependent variable.

7. Findings

7.1. Descriptive analysis. Eighty-three questionnaires were sent out to the government auditors, and 73 (88%) answered questionnaires were received from the respondents. The demographic profile of the respondents is illustrated in Table 6.

8. Hypotheses testing

8.1. Findings on the effect of independent variables on perceptions of auditors' independence.

Table 7. Multivariate main effect of non-audit services fees, audit tenure and audit competition on perceptions of auditors' independence of government auditor

Independent variables	Wilks' lambda value	F	Hypothesis df	Error df	Sig.	Partial Eta squared
Non-audit services fees	.854	11.805	1.000	69.000	.001***	.146
Audit tenure	.973	1.932	1.000	69.000	.169	.027
Audit competition	.880	9.444	1.000	69.000	.003***	.120

Note: *** $p < .01$.

It is found based on the results illustrated in Table 7, non-audit services fees and audit competition are significant as indicated by $p = .001$ and $.003$, respectively. These results demonstrate that high non-audit services fees and high audit competition significantly impair the perceptions of auditors' independence. However, audit tenure is not significant ($p = .169$) which means it does not significantly influence impairing the perceptions of auditors'

Table 6. Demographic profile of government auditors

(Percentage in parentheses)		
		Government auditors (n =73)
Gender	Male	48 (66)
	Female	25 (34)
Age	20-25 years old	0
	26-30	6 (8)
	30-40	32 (44)
	Above 40	35 (48)
MIA membership	Yes	21 (29)
	No	52 (71)
Education	Bachelor degree	56 (77)
	Masters degree	13 (18)
	Ph.D/doctorate	1 (1)
	Professional degree	3 (4)
Current tenure	3-5 years	16 (22)
	5-7 years	18 (25)
	Above 7 years	39 (53)
Current position	W41	52 (71)
	W44	7 (10)
	W48	7 (10)
	W52 & above	7 (10)
Previous working experience	Yes, at CPA firms	25 (34)
	Yes, but not at CPA firms	31 (42)
	No experience at all	17 (23)

As depicted in Table 6, 66% of the government auditors are males. Since academic qualification is a concern, 77% of the government auditors possess a minimum of only bachelor degree. The remaining percentage has higher degrees (18% Master degree and 1% Ph.D.). However, only 4% of the samples have professional degree as the highest academic qualification. Besides, 71% of the government auditors are not members of MIA.

independence. The Wilks' Lambda of value of non-audit services .854 (audit competition .880) indicates that there are differences in high or low non-audit services fees (audit competition) to impair perceptions of auditors' independence. Nevertheless, the Wilks' Lambda of audit tenure shows value close to 1, indicating that there is no difference in high or low in audit tenure to impair perceptions. In addition, the strength of association as described in the value of

partial eta squared shows that variance explained by non-audit service is 14.6% followed by audit competition 12% as compared to audit tenure that only explains 2.7% of the variance in the dependent variable.

7.2. Findings on judgment consistency. The hypotheses examined the consistency of auditors in making judgment where they evaluated two similar cases at two different times. It was expected that the auditor would be consistent in making judgment that is, similar agreement or disagreement in both cases to the perceptions of auditors' independence. Table 9 shows that there is no significant difference in their judgment consistency.

Table 8. Paired sample *t*-test (government auditors)

	Mean	<i>t</i>	df	Sig. (2-tailed)
Case 1	4.3904	.654	72	.515
Case 9	4.3082			

To measure consistency in judgment, paired-sample *t*-test was conducted to determine the differences in mean of Case 1 and Case 9 on the sample of government auditors. As shown in Table 8 Case 1 has a mean value of 4.3904 (SD = 1.41727) while Case 9 has a mean value of 4.3082 (SD = 1.38602). The Sig. (2-tailed) has a value of .515. Therefore, the difference between Case 1 and Case 9 is not significant. Hence, the government auditors are consistent in their judgment.

8. Discussion of research findings

8.1. Non-audit services, audit competition and audit tenure on perceptions of auditor independence. The current research found that non-audit services fee and audit competition are significant to impair perceptions of auditors' independence. However, the current research did not find audit tenure as significant to impair their perceptions.

Where non-audit services fees is concerned, the current research supports the findings of the previous studies, such as Nur Barizah et al. (2005), Teoh and Lim (1996), and Barlett (1993), to name a few, that found that providing non-audit services would impair independence. Several other studies such as McKinley (1985), did not find such relationship, while Gul (1989) found a positive relationship. Non-audit services are other services provided by auditing firms to their clients. Providing other than auditing services to an audit client increases fear that auditors may compromise independence in many ways. For example, providing other than auditing services could lead audit clients to engage in opinion shopping with their auditors before appointing the existing auditor for extra services. The auditor is more likely to charge lower auditing fee to attract their audit clients

into appointing them to provide other services. Thus, auditor is more likely to issue opinion favourable to his clients. Also auditors may accede to their clients other demands, such as shorten auditing time or lesser scrutiny of auditing evidence which compromises independence. As the findings of the current research proved that non-audit services fees impair independence, regulating bodies should review the guidelines on the amount of revenue contributed to the income of an auditing firm.

With regards to audit competition, the findings of the current study support the findings of Nur Barizah et al. (2005), while it opposes to Gul (1989). From the economic theory point of view, competition results from variation of demand and supply. Higher demands would result in higher price, while more supply would cause price to decline. As competition is stiff, auditors may concede to clients' wishes in order to retain existing clients which could lead auditors to compromising independence with view to ensure that their audit clients retain them as auditors. Moreover, high competition from suppliers of auditing services would imply more supply which could bring about possibilities that auditors offer lower fees to attract client. This is also known as 'low-balling' and could compromise auditors' independence.

On the other hand, the current research found that audit tenure has no significant influence on the perceptions of auditors' independence. The results were found to be similar for both groups of auditors which suggest that audit tenure is not likely to impair the perceptions of auditors' independence. This finding is consistent with that of Shockley (1980), and Teoh and Lim (1996). However, it is inconsistent with the findings of a study by Nur Barizah et al. (2005) where audit tenure was found to have a negative relationship with auditors' independence. Long audit tenure may imply comfortable relationship of an auditing firm and its clients. This includes social interactions between the two parties as well as cost-benefit evaluation of the auditor-client relationship. Long term relationships may lead to familiarity and, consequently, it would result in lax approach and viewpoint, which ultimately could compromise independence. However, the findings of the current study confirm audit tenure does not impair auditors' independence. This implies that the auditors are not persuaded to compromise their independence on long term auditor-client relationship.

In conclusion, the non-audit services fees and audit competition show a significant effect on the perceptions of auditors' independence, while audit tenure has an insignificant effect on the perceptions of auditors' independence.

8.2. Judgment consistency. The hypotheses were developed to seek consistency of judgment of respondents collectively. Consistency in judgment relates to stability and reliability. Consistency is important as it demonstrates the ability of auditors to make similar judgments when facing issues at different points of time.

Two identical scenarios were placed at the beginning and end of the section to observe the pre- and post-effect. Professional judgment must remain consistent at the beginning and ending of experiment. The findings describe that their judgment are similar at different points of time. As the auditors are consistent, the judgment made is implied to be reliable.

8.3. Implications of research. The current research contributes to the body of knowledge in several ways. The findings provide evidence that the government auditors are consistent in their judgment implying that they are reliable when making decisions. These characteristics also describe stability and accuracy that consequently demonstrate quality judgment.

Given the significant findings on influence of NAS and AC on auditors' independence, the MIA and the Auditor General are recommended to be more cautious of audit opinions. The practice of privatizing audit of some government department or other government related entities (such as, GLC, government agencies as well as private companies that receive government assisted funding) should be viewed and scrutinized with caution, as these firms

may provide non-auditing services to the same company. Also, stiff competition among private firms to secure government contracts may influence the auditors' independence. Even when government auditors audit private companies that receive government funding, since these two conflicts it might influence auditors' independence.

The Government Audit office should promote professional membership to its personnel. It is noted that only one-third of the government auditors are MIA members. The other two-third of the government officers are non-members. Having professional qualification would confer better recognition to the auditor himself. This would enhance professionalism of the auditors, government audit office and the profession as a whole.

8.4. Limitation and suggestions for future research. The current research used experimental design, as such the scope of the study and the number of variables examined is limited. The current research also focused on only one confronting issue in auditor-client relationship that was disagreement between a client and his auditor on disclosures. There could be other issues, such as budget pressure that could lead to disagreement between the two parties. Future research should consider different designs of experiments. Kirk (1995) split plot factorial designs are alternatives to repeat measures. Particularly, in Kirk's (1995) plot the size of plots are smaller yet much treatment levels could be taken into consideration as randomized block factorial design.

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