INTRODUCTION

It is currently an unresolved issue in the extant literature as to whether non-audit services affect auditor independence in fact. A related and equally important issue involves the effects that non-audit services have on the appearance of independence. Auditor independence, both in fact and appearance, has long been recognized as an important aspect of audit quality (DeAngelo, 1981a). According to the Generally Accepted Accounting Principles (GAAP), Independence is one of the key factors of the auditors. Without independence the auditor’s reports would not be credible and investors which creditors would have little confidence in them. Independent audits enhance the credibility and reliability of financial statements, thus contributing to effective corporate governance and improving the efficiency of capital markets. Also audit quality has been defined in the literature as the perceived ability of an auditor to both discover a breach in the accounting system (i.e. competence), and withstand client pressures to selectively disclose a discovered breach. According to American Institute of Certified Public Accountants (AICPA, 1977), independence both historically and philosophically, is the foundation of the public accounting profession.

The previous chapter has been devoted to the analysis and interpretations of data. The analysis has yielded some significant findings pertaining to Non audit services rendered by auditors. The present chapter aims at providing the major findings of the study.
MAJOR FINDINGS OF THE STUDY

The major findings of the study have been presented under: (A) Respondents Profile, and (B) Empirical Results.

(A) Respondents Profile

The following structural characteristics of respondents were evidenced:

1. Exact (84.3) percent of respondents were male as against 15.7 percent were female.
2. Majority (77.4) percent of the respondents were married as against 22.6 percent who were unmarried.
3. Majority (69.3) percent of the respondents were between the age group of 26 to 50 years.
4. About (41.1) percent of respondents had experiences between 11 to 20 years, of which 52 were brokers, 64 were auditors and 62 were investors.
5. Most of respondents (41.1) percent had experiences between 11 to 20 years, while (18.7) percent had more than 21 years.
6. The classification of the respondents based on education presents that 6.9 percent (30) of respondents had diploma, 66.5 percent (288) of them had bachelor, 25.9 percent (112) had master and remaining 7 percent (3) had Ph.D.
7. About 336 (77.6%) of the respondents had investment in the stock market and just 97 (22.4%) had not. Among the respondent had investment 117 were brokers, 73 were auditors and remaining 146 were investors.
8. Majority (58) percent of respondents believed that the investment motives were a mix of primary and secondary.
9. The significance of audit report for decision making on investment by brokers, auditors and investors show that most (28.2%) of the respondents selected figure 4 that figure 1 was lower and figure 5 was highest.
10. Among 433 sample 65 percent (281) of the respondents believed that there are scandal because of NAS in Iran.
(11) In the case of importance given for various items in the annual report for investment decision by respondents show that most of the respondents (52.0%) strongly agreed for the ‘auditor’s report’ while in relation of ‘financial statements’ 54.3 percent of the samples were agreed.

(B) Empirical Results

The major findings are systematically presented in order of the objectives of the study.

MAJOR FINDINGS

The following are major findings in the background of the objectives of the study and hypotheses for the study:

1. Non-audit services are practiced by Iranian auditors. The lower figure was related to (10.6%) human resource and highest was related to (70.7%) ‘Internal audit outsourcing services’. When we compare the two groups of Iranian auditors, we realize that Government auditors’ practice of NAS is lower than that of Chartered accountants.

2. The respondents stated that practice of book keeping, financial information systems design and implementation, internal audit outsourcing services and management functions, more than other NAS, causes impairment of auditor independence.

3. Activities like book keeping, financial information systems design and implementation, internal audit outsourcing services, tax adviser, and tax return, more than other NAS, are practiced by Iranian auditors.

4. The results show that audit reports are most important for decision making in Iran.

5. All respondents believed that practicing of NAS by auditors do not threatened auditor independence. When compared to two groups of Iranian auditors one realizes that practicing of NAS by auditors do not cause impairment of independence of auditor.

6. There are two groups of auditors in Iran (Government auditors and Chartered Accountants). 84.5 percent of them are declared Iranian auditors.
practicing NAS, but there are significant associations about the practicing of some NAS. Chartered accountants practice bookkeeping, financial information systems design and implementation, internal audit outsourcing services, and tax advice more than Government auditors.

7. The respondents acknowledged that providing NAS by auditors to their clients reduces cost of audit and increases auditor’s knowledge about the client but cannot enhance auditor competence.

8. When the associations between categories of responses are verified, there are significant associations. About the practicing of appraisal or valuation services, auditor response was lower than other groups, also about the practice of tax returns, the response of brokers was lower than other groups.

9. The respondents confirmed that rendering NAS by auditor to audit client basis for better judgment, increases the probability of problem discovery.

10. Consequences show that providing of NAS by auditors to their clients creates economic dependence since non-audit fees are more than audit fees and as a result, causes reduction of auditor independence.

11. Respondents believe that when auditors render NAS to their clients they may be reluctant to criticize the work done by their consulting division. It creates a client advocacy role for the auditor, and cannot issue a qualified opinion on the output of a system installed for their client.

12. Rendering NAS by auditors to their clients cannot prevent corporate fraud, provide additional insurance to stockholders, and improve to detect fraud.

13. The results show that providing of NAS by auditors to their clients does not have an effect on disclosures of fraud.

14. The outcomes illustrate that large audit firms cannot be independent than small audit firms.

15. Respondents confirmed that large audit firms cannot render auditing better than small audit firms.

16. There are different opinions between groups about the relationships between size of auditing firms and auditor independence.
17. Respondents groups do not have different opinion on NAS reduces the credibility of audit opinions but about some statements have different opinion.

18. The results show that groups had different opinion on positive relationship between size of auditing firm and audit quality.

19. Respondents believe that there are different opinions between groups about positive relationship between size of auditing firm and auditor independence.

20. Respondents groups confirmed that there are different opinion on there is a positive relationship between NAS provisioning and corporate frauds.

TESTING OF HYPOTHESES

In the background of the findings of the study, the hypotheses formulated have been tested below:

**H1** stated as ‘NAS reduces the credibility of audit opinions’ is rejected for the total scores as the obtained ‘t’ value was found to be significant. As against expected score of 40, the group has obtained a mean score of 51.9376.

**H1** for individual statements is also rejected as we find that against the expected score of 2.0, the mean values ranged from 1.76 to 3.05, which are all found to be significantly different as revealed by one-sample t test (Table 5.17). Though only one statement (Book keeping or other services related to accounting records or financial statements) was almost agreeing with the hypothesis, still it was statistically significant.

**H1a** stated as “Brokers, auditors and investors differ significantly in their opinion on ‘NAS reduces the credibility of audit opinions’ is rejected as we find that one-way ANOVA revealed a non-significant difference between brokers, auditors and investors, who had statistically similar scores.

**H1a** for individual statements for mean scores is verified; at least in few statements H1a is accepted. In the case of statements “The effect of performing book keeping or other services related to accounting records or financial
statements on auditor independence” where investors had higher scores and auditors least, The effect of appraisal or valuation services and fairness opinions or contribution-in-kind reports on auditor independence, where auditors had higher scores and other groups less, The effect of performing of broker or dealer, investment adviser or investment banking services on auditor independence, where investors had high scores and auditors less, The effect of performing of legal services and expert services unrelated to the audit (merger, acquisition) on auditor independence, where brokers had high scores and auditors least, The effect of providing of NAS creates a client advocacy role for the auditor’ and in The effect of providing of NAS associates with clean audit opinions where investors had high scores and auditors least, When Auditor receiving NAS fees is less likely to qualify his/her opinion than auditor that does not receive such fees, where investors had higher scores and brokers least, An auditor’s ability to withstand client pressure in a disagreement either NAS is present or absent, where auditors and brokers had higher scores than investors.

H2 stated as ‘NAS provisioning enhances the competence level of auditors’ is rejected for the total scores as the obtained ‘t’ value was found to be significant. As against expected score of 18, the group has obtained a mean score of 23.9815.

H2 for individual statements is also rejected as we find that against the expected score of 2.0, the mean values ranged from 2.13 to 3.29, which are all found to be significantly different as revealed by one-sample t test (Table 5.40).

H2a stated as “Brokers, auditors and investors differ significantly in their opinion on ‘NAS provisioning enhances the competence level of auditors’ is rejected as we find that one-way ANOVA revealed a non-significant difference between brokers, auditors and investors, who had statistically similar scores.

H2a for individual statements for mean scores is verified; atleast in few statements H2a is accepted. In the case of statements “The effect of providing of internal audit (NAS) reduces the number of hours and fees of audit” where investors had higher scores and auditors least, The effect of providing NAS reduces the
need for subsequent restatements, where auditors had higher scores and investors least, *The effect of providing of NAS increases the probability of problem discovery*, where auditors had high scores and investors less, *The Impact of NAS on audit quality can depend on the magnitude of NAS rather than the type of NAS*, where investors had high scores and auditors least.

H3 stated as ‘*There is a positive relationship between size of auditing firm and audit quality*’ is rejected for the total scores as the obtained ‘t’ value was found to be significant. As against expected score of 14, the group has obtained a mean score of 19.6467.

H3 for individual statements is also rejected as we find that against the expected score of 2.0, the mean values ranged from 1.98 to 3.40, which are all found to be significantly different except for one statement (Large audit firm is more likely to have multiple clients in the same industry) as revealed by one-sample t test (Table 5.52). Only one statement was agreeing with the hypothesis, where it matched with the expected score statistically.

H3a stated as ‘*Brokers, auditors and investors differ significantly in their opinion on There is a positive relationship between size of auditing firm and audit quality*’ is accepted as we find that one-way ANOVA revealed a significant difference between brokers, auditors and investors, where investors had high scores and auditors least.

H3a for individual statements for mean scores is verified; at least in few statements H3a is accepted. In the case of statements ‘*Belief status that large audit firm supplies a higher level of auditing quality* ‘ where investors had higher scores and auditors least, *Belief status that the higher audit fees for larger firm are likely to be the result of higher audit quality* , where investors had higher scores and other groups less, *Belief status that large audit firm is more likely to have multiple clients in the same industry* , where investors had high scores and auditors less, *Belief status that larger audit firm were associated with high accurate forecasts than were smaller accounting firms*, where auditors had high scores and brokers least.
H4 stated as ‘There is positive relationship between size of auditing firm and auditor independence’ is rejected for the total scores as the obtained ‘t’ value was found to be significant. As against expected score of 16, the group has obtained a mean score of 21.0208.

H4 for individual statements is also rejected except for 1 statement (‘Large audit firm is more risk averse in respect of damage to their reputation from events such as public scandals and/or audit failures) as we find that against the expected score of 2.0, the mean values ranged from 2.09 to 3.36, which are all found to be significantly different, except for the statement (Large audit firm is more risk averse in respect of damage to their reputation from events such as public scandals and/or audit failures) as revealed by one-sample t test (Table 5.62).

H4a stated as “Brokers, auditors and investors differ significantly in their opinion on ‘There is positive relationship between size of auditing firm and auditor independence’ is accepted as we find that one-way ANOVA revealed a significant difference between brokers, auditors and investors, where investors and brokers had high scores and auditors had least scores on the mentioned concept.

H4a for individual statements for mean scores is verified; at least in few statements H4a is accepted. In the case of statements “Belief status that large audit firm is more risk averse in respect of damage to their reputation from events such as public scandals and/or audit failures” where investors had higher scores and auditors least, Belief status that large audit firm does not rely on revenue from a single client, where investors had higher scores and other groups less, Belief status that large audit firm improves the credibility of the financial statements, where investors had high scores and auditors less, Belief status that audit firm with smaller clients are lenient and easy going in the report favorable retain clients, where investors had high scores and auditors least, Belief status that larger audit firm tends to be less dependent on a given
company-client than a small one” where investors had high scores and auditors least.

H5 stated as ‘There is a positive relationship between NAS provisioning and corporate frauds’ is rejected for the total scores as the obtained ‘t’ value was found to be significant. As against expected score of 34, the group has obtained a mean score of 46.7090.

H5 for individual statements is also rejected as we find that against the expected score of 2.0, the mean values ranged from 2.43 to 2.88, which are all found to be significantly different as revealed by one-sample t test (Table 5.73).

H5a stated as “Brokers, auditors and investors differ significantly in their opinion on ‘There is a positive relationship between NAS provisioning and corporate frauds ‘ is accepted as we find that one-way ANOVA revealed a significant difference between brokers, auditors and investors, where auditors had high scores, followed by brokers and investors had the least scores.

H5a for individual statements for mean scores is verified; at least in few statements H5a is accepted. In the case of statements “Providing of NAS prevents corporate fraud in the future” where brokers had higher scores and auditors least, Providing of NAS (i.e. internal audit) causes detecting the fictitious revenues, where auditors had higher scores and other groups less, Providing of NAS (i.e. internal audit) causes detecting the omitted or undervalued liabilities, where auditors had high scores and investors least, Providing of NAS causes detecting the equity frauds, where auditors had high scores and investors least, Providing of NAS (i.e. internal audit) causes detecting the related party transactions” where auditors had high scores and investors least, Provisions of NAS (i.e. internal audit) cause improper disclosures related party transactions, where auditors had higher scores and investors least, Provisions of NAS (i.e. internal audit) cause improper disclosures external loan guarantees, where auditors and brokers had higher scores than investors, Provisions of NAS (i.e. internal audit) cause improper
Disclosures significant contracts or events, where auditors had higher scores and investors least, Provisions of NAS (i.e. financial information systems design and implementation) cause improper disclosures miscellaneous, where auditors had higher scores and investors least.

H6 is accepted for statements “Book keeping or other services related to accounting records or financial statements’, Fairness opinions or contribution-in-kind reports, Human resources (recruitment of executive manager), Internal audit outsourcing services, Management function, Broker or dealer, investment adviser or investment banking services, Legal services and expert services unrelated to the audit (merger, acquisition, tax advisor and tax returns, where we find that government auditors agreeing significantly more than chartered accountants. For the rest of the statements both government auditors and chartered accountants had similar pattern of responses.

SUGGESTIONS

In the background of the findings, the following suggestions have been presented to enhance auditor independence, audit quality, and more reliability of financial statements for investment or other decision making by users of financial statements. In order to increase audit quality the following are suggested:

i. Defining and clarifying audit and NAS activities in audit services because auditors consideration on their work.

ii. Considering penalties and punishment for auditors in case of breaking the auditing regulations.

iii. Activating audit committees in corporations and shall be to assist in its oversight of the integrity of financial statements of the company.

iv. Pre approval by the audit committee of all services provided by the independent auditor.

v. Limits on the type of NAS that accounting firms may provide to companies under audit and it must be disclosed to stakeholders through the annual proxy statement.
vi. More clearly defined disclosure of the fees paid to auditors for all services. This disclosure forces companies to distinguish, on the one hand, between fees paid for legally-required audits and those paid for other services (NAS).

vii. More frequent rotation of the lead audit partner, concurring review partner and other audit partners. Mandating auditor rotation could enhance auditor independence and provide auditors greater incentives to resist management pressures.

viii. May be tenure decreases knowledge of the auditor of his client but industry specialist audit increases knowledge and auditor independence.

ix. Aim for the survival and protection of the small audit firms which are necessary by specializing in any one particular industry.

**SCOPE FOR FURTHER RESEARCH**

Further research could investigate the potential benefits of even more disclosures of specific non-audit services, and the ability of these disclosures to mitigate the decrements in perceived auditor independence, audit quality, financial statement reliability, and investment attractiveness. The scope for further research is presented below:

i. Since Non-audit fee is more than audit fee it is necessary to test for associations with fee variables such as total fees and non-audit fees with emphasis on a componentized approach.

ii. Determine how public policy, audit committees, and accountants can create structures to mitigate the risks of auditor impairment.

iii. Since perpetual auditing by audit firm creates a frequent communication between the audit team and management (economic dependence) it is necessary to consider the effect of mandatory audit firm retention on audit quality.

iv. To study and identify factors that influence auditor independence.

v. The effect of audit firm tenure on fraudulent financial reporting.
LIMITATIONS OF THE STUDY

1. In this study the researcher’s study is limited to Tehran city only, so it may not cover all of Iranian auditors as well as third parties, because top companies and experts are in Tehran city.

2. In this survey the researcher uses the questionnaire as an instrument for a sample population; therefore, this study may not gather all the information from the whole Iranian non-audit service population.

3. The sample of investors is drawn only from the manager and experts of investment’s company because investors are more wide spread, also most probably ordinary investors do not have enough knowledge about the NAS and audit quality.

CONCLUSION

External auditors play an important role in the capital markets by providing a service to protect the interests of the investing public. This public watchdog function requires that accounting firms remain independent of the audit client and act on behalf of the public, not the audit client. After several financial scandals and collapses, the bankruptcy of the Enron Corporation in 2002, revealed a key weakness in auditor independence. Independence is one of the key factors of the auditors without which audit reports wouldn’t be credible and investors and creditors would have little confidence in them. Independent audit will also enhance the credibility and reliability of financial statements.

The issue of auditor independence remains important, and the increased levels of non-audit services (NAS) provided by audit firms to their clients continue to be of concern. Using the newly mandated law (SOX) by USA Congress that auditors are prohibited to render NAS to their clients, this study experimentally investigated investors’, auditors’ and brokers’ perceptions of auditor knowledge, auditor independence, audit quality, audit size, financial statement reliability, and fraud, in the presence and absence of various types of NAS.
To conclude, this study aims to identify what kind of NAS is practiced by Iranian auditors and to examine the impact of the provisions of non-audit services on the independent Iranian auditor’s perceptions of auditor independence. The results of the study shows that all respondents believe provisions of the NAS by independent auditors’ do not threaten auditor independence and the majority of the respondents decelerated Iranian auditors practicing NAS.

The perceived level of an auditor’s knowledge about the client’s firm cannot be affected by NAS provision. Results of audit quality perceptions on independence and knowledge perceptions support prior literature propositions that perceived audit quality as a combination of these two factors. Although knowledge and independent auditors’ were significant in explaining financial statement reliability, hence their will be effect when auditors practice NAS on their clients. In turn, financial statement reliability perceptions affected stakeholders’ attractiveness. Providing of NAS cannot improve detection of fraud. Regarding results that show large audit firm cannot supply a higher level of auditing quality, it is more likely to detect and report material problems, and large audit firms for protection of their reputation can not be more independent than small audit firms.