

## The Impact of Consulting Services on an Auditor's Independence – A Survey Study on Audit Firms in Lebanon

Hasan Yousef El-Mousawi\*  
Rania Zreir\*\*

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### □ ABSTRACT □

As a result of the knowledge and experience they have, in addition to auditing financial statements for enterprises, auditors sometimes provide consulting services (non-audit services). Some of these services might impair the auditors' independence with regard to the enterprises.

This study aims to identify the role of Lebanese audit firms in providing such consulting services and their impact on the Lebanese auditors' code of professional conduct. A well-structured questionnaire of three main domains was used to collect data. The samples were all members of Lebanese Association of Certified Public Accountants. The results of the study showed difference of statistical significance within the opinions of the study samples about the impact of consulting services on auditor independence. The study includes a number of recommendations mainly:

1. The Ministry of Finance and the Lebanese Association of Certified Public Accountants must augment legislations related to violations and punishments against Lebanese audit firms which fail to comply with their professional duties upon providing consulting services.

2. The Lebanese Association of Certified Public Accountants should put forth audit control to organize the actual practice of supplying consulting services by audit firms.

3. Using the method of team auditing instead of individual auditing leads to enhancing auditor independence.

4. Legislation related to commerce should include some articles which organize the process of changing the auditor, where essential reasons should be presented for a change. In addition, a change should not be allowed during the financial year which the auditor is auditing to protect and enhance the auditor's independence.

**Keywords:** Consulting services, audit, independence

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\* Associate Professor-Department Of Accounting- Lebanese University.

\*\* Associate Professor- Department Of Insurance And Banking -Damascus University- Damascus-Syria.

## **Introduction**

It is important to have dependable and truthful information in the financial reports since they are a means for Lebanon to maintain development and attract capital to the country. As the financial reports should be true and fair, the independent auditor's role becomes fundamental, especially when there is a lot to win or lose, and both domestic and international investors depend on auditors' independence.

Acting independently is usually quite difficult for an auditor to do. If a threat to the independence occurs, the auditor must identify that threat and eliminate or reduce it to an acceptable level before he or she can carry on with or accept the task. Whenever the auditor cannot decrease the threats with proper safeguards, he or she must quit the commitment or choose to decline it. The importance of the auditor's independence and neutrality has been controversial in recent years when several auditing scandals were exposed, which resulted in stricter guidelines on how the financial statements should be prepared. The Sarbanes-Oxley Act, which came into being after the Enron's collapse, is a good example.

Despite benefits for auditors, there are laws and regulations in numerous countries which banned auditors from providing some consulting services for an enterprise under audit which became an effective factor in the stage of accepting agents at the time which they are providing consulting services. When an auditor is accepted for auditing, he or she is rejected in case he or she is providing one or more consulting services, which were banned by regulations and legislations, where it impairs the profession in general and the auditor's independence in particular. Consequently, auditors should balance between benefits for consulting services they provide for an enterprise under audit and reduce the impact which challenges their independence upon providing such consulting services.

On the light of the above, this study shows the role of audit firms in Lebanon in providing consulting services and their impact on the auditors' independence and code of professional conduct where the researchers conducted a field study on audit firms in Lebanon.

## **Methodical Framework and Preceding Studies**

### **Research Problem**

Lebanon is characterized by the widespread of auditing firms, which lead to increasing competition in the market of audit services. Monopoly of some of the big audit firms to the market in Lebanon lead to a decrease of fees of some firms due to their limited work, lack of experience and restriction to supplying auditing services—away from offering consulting services. This forced a lot of the Lebanese audit firms to expand their line of work to include non-audit services (consulting services)—along with auditing services, which is viewed from the perspective of financial interests of those firms. However, supplying consulting services for the enterprise under audit may affect the auditor's code of professional conduct and deteriorates his/her independence.

### **Objectives:**

The main objective of this study is to know the impact of consulting services on the neutrality and independence of the auditor in Lebanon through testing hypotheses of the study. This objective is achieved through the following sub-objectives:

1. Defining the extent of impact of consulting services that audit firms in Lebanon offer on the auditor's code of professional conduct.

2. Defining the extent of impact of consulting services that audit firms in Lebanon offer on the auditor's neutrality and independence.

3. Putting forth some recommendations that could contribute in solving issues of independence that might face the auditor when performing consulting services to increase trust in the profession toward the public.

#### **Importance:**

1. This study takes its importance from the scarcity of practical studies about the relation between the impact of consulting services and its consequences on the neutrality and independence of the auditor in Lebanon. Therefore, this study is an addition in this regard, which also denotes its importance.

2. This study derives its importance from the fact that increasing interest in the neutrality and independence of the auditor leads to increase the quality of professional performance of an auditor in Lebanon.

3. Concern in neutrality and independence of an auditor in Lebanon leads to providing trusted basic information for users of financial statements in client companies about the efficiency and proficiency of the audit operation.

#### **Hypotheses:**

First Hypothesis:

There are no differences of statistical significance in opinion among Lebanese auditors about the impact of consulting services on an auditor's code of professional conduct.

Second Hypothesis:

There are no differences of statistical significance in opinion among Lebanese auditors about the impact of consulting services on an auditor's independence.

Third Hypothesis:

There are no differences of statistical significance in opinion among Lebanese auditors about the impact of consulting services on an auditor's fees.

#### **Limitations :**

Spatial Limit: This study is limited to accounting and auditing firms working in Lebanon.

Time Limit: This study is limited to the period between the beginning of May and the end of December 2015.

#### **Methodology:**

This study employs the following research methods:

1. Inductive Method:

The study employs this method in analyzing what was mentioned in books, scientific periodicals and previous studies related to consulting services to recognize the following:

- The most important researches and studies related to consulting services.
- The general framework of consulting services as one of the ways affecting neutrality and independence of auditors' professional performance.

2. Deductive Method:

This method is depended upon through analyzing the results of the field work applied on a sample of certified accountants who are members of the Lebanese Association of Certified Public Accountants to deduce the practical reality of accounting and auditing

firms in Lebanon as of supplying consulting services and the impact of such services and fees as an influential technique on professional neutrality and independence of these firms.

**Preceding Studies:**

After reviewing literatures on the topic, the researchers found that several studies have dealt with variants of this study. Thus the researchers try to employ what was mentioned in those studies to achieve the objectives of the study at hand. Most important of those studies follow:

1. Kreit Study (2008) under the title “Consulting Services and Impact on Auditor’s Neutrality in Jordan”.

The study goal was to recognize the extent of an external auditor’s independence in Jordan upon providing consulting services for an enterprise which is, at the same time, under audit. The study community includes practicing auditor firms in Jordan, and a random sample of 10 audit firms was chosen.

The researchers reached some results, mainly:

- Auditors’ fees for consulting services constitute a significant part of their overall annual income.
- Auditors supplying consulting services for an enterprise supply audit services as well.
- Audit firms supply audit services for long and successive financial periods and consulting services at the same time.
- The decrease of practicing auditors in audit firms has lead to not distinguishing one who audits form one who supplies consulting services.

2. Khdash and Sertawi study (2010) titled “The Extent of Contribution of Articles Related to Independence Mentioned in Sarbane-Oxley Act in Enhancing Independence of Jordanian Certified Accountants and Their Impact on Minimizing the Gap of Expectations: A Field Study from the Perspective of All Financial Statements Auditors and Founding Investors”.

This study aimed at recognizing the extent of contribution of articles related to independence mentioned in the American Sarbane-Oxley Act in enhancing independence of Jordanian external auditors and the impact of these articles on the gap of expectations. It also aimed at finding suitable solutions for the problem of skepticism about independence of Jordanian external auditors. The results of this study showed presence of efficient contributions to directions of independence which are mentioned in Sarbane-Oxley Act on enhancing Jordanian external auditors’ independence and on minimizing the gap of expectations. In the light of these results, the researchers recommended that parties supervising organization of the profession should list consulting services that an external auditor is not allowed to perform to an enterprise under audit and should also work on adopting appropriate legislation to protect external auditors’ independence, where they can benefit from directions of independence mentioned in Sarbane-Oxley Act to achieve it. The most important results that the study reached include:

- Determining a list of consulting services that an external audit is allowed to perform to an enterprise under audit has an efficient impact on enhancing external auditors’ independence.
- Getting the prior audit committee’s consent about the kind of consulting services that are not prohibited would enhance an auditor’s independence.
- Presence of direct supervision on the audit committee’s behalf over the external auditor’s work would enhance his independence.

3. Semiu Babatunde Adeyemi and Johnson Kolawole Olowookere’s study (July 2012) titled

“Non-Audit Services and Auditor Independence – Investors’ Perspective in Nigeria”.

This study aims at investigating the perceptions of Nigerian investors on the effect of joint provision of audit and non-audit services on an auditor's independence. The majority of the respondents agree with the statement that provision of non-audit services to audit clients by audit engagement team would threaten independence. The authors conclude that non-audit services are useful to clients; however, where applicable, they should be performed by a firm other than an audit firm. Independence encompasses both factual and appearance situations.

The authors reached the following recommendations:

- Non-audit services should not be allowed for audit clients and safeguards should be undertaken to maintain the independence of the external auditor in Nigeria.
- Non-audit services fees should not exceed 25% of total fees paid to the external audit firm.
- Auditors should constantly assess their position in the community and take necessary measures where their assessment indicates below expectations to maintain public confidence.

4. Mahdi Salehi's study (2009) titled "In the Name of Independence: with Regard to Practicing Non-Audit Services by External Auditors".

The study suggest that although auditors have market based incentives to remain independent, auditors' independence may be threatened when auditors provide non-audit services to their clients, and it is reasonable that non-audit services actually impair independence. The study also points out that some professionals and academics took action to clarify and limit non-audit services; however, it is not enough.

The study reached the following conclusions:

- National and international accounting and audit regulations should be redefined.
- There should be new regulations regarding non-audit services, which give a clear picture about the services to auditors as well as investors.
- There should be severe penalties for those who violate these regulations.

### **Theoretical Framework of the Study**

#### **Concept of Consulting Services**

There are numerous definitions in this regard, some of which follow:

- They are services provided by auditors, except auditing financial statements, such as managerial consulting services and accounting and taxation services. Such services can be provided by auditors of financial statements or another party. (Adeyemi and Olowookere, 2012, p: 89)

- American Institute of Certified Public Accountants defined them as professional advice which mainly aims to improve efficiency and proficiency of an enterprise's use of available power and assets. (Thomas and Hinkey, 2006, p:1041)

- According to SOX Act, they are professional services provided by audit firms to enterprises, except services related to auditing financial statements.

- The Securities and Exchange Commission, SEC defined them as all services other than auditing financial statements.

- Generally Accepted Government Auditing Standards defined them as services that auditors provide except auditing financial statements and audit performance, which is the service performed according to the wishes of the enterprise under audit and directly supports the enterprise's activities, such as developing the accounting system of the enterprise, determining the accounts, processing wages and salaries, assessing assets, and performing some and insurance statistical studies. (Rifai, 2008, p.14)

In the light of the above definitions of consulting services, the researchers present a definition which sums what is mentioned in these definitions. The researchers find that consulting services are professional, non-pledged services which the management needs to develop and grow its financial, material and human resources and use them efficiently. Those services are provided by a person or persons of high, specialized and professional skill where decisions related to results of the services are strictly the management's jurisdiction.

### **Scope of Consulting Services**

Consulting services provided to an enterprise varies with the variety of situations which the management of the enterprise performs according to the managerial policy within the enterprise, where there is increasing demand for consulting services of various types from the management, being considered means which help improve the enterprise's performance using available resources and assets. There are many categories of these services:

1. **Administrative Consulting Services:** These include Feasibility, human resources and quality management.

2. **Financial Consulting Services:** These include forecasting methods and systems, systems of minimizing costs, reviewing and improving accounting procedures and financial and accounting systems.

3. **Taxation Consulting Services:** Such type of services is highly essential for the management since the enterprise, in its various activities, need these services. Laws and regulations forced many countries to present tax endorsements, planning services and tax auditing. Because of its importance, the AICPA has founded a specialized committee on responsibilities and tax practice which issued many periodicals which define and identify the external auditor's responsibilities upon practicing such type of services mainly not to engage in management decisions. (Thomas and Henke, 2006, p. 1040)

4. **Preparing Financial Statements:** This is a non-assertive type of service which means that the auditor prepares financial statements or bookkeeping procedures for an enterprise under audit or any other enterprise as agreed upon. This service does not include giving opinion about financial statements. In audit and code of ethics issuances, the International Federation of Accountants had specified some demands to be taken into consideration when an auditor provides the service of preparing accounting records including that the auditor who prepares accounting records should not be engaged in auditing them.

### **Relation between Consulting Services and Independence**

#### **• Auditor Independence**

Auditors providing consulting services to an enterprise under audit should not be involved in decisions resulting from supplying these services lest their independence be impaired upon providing their opinion as financial statements auditors. Independence is difficult to define since it is an abstract concept. However, in defining auditor independence, the literature opts for objectivity, the ability to avoid bias; and integrity, willingness to report a truthful opinion which reflects matters discovered during the audit (De Angelo, 1981). Auditor independence is the conditional probability of reporting a discovered breach of contract. Auditor independence may be impaired when auditors earn specific fees, which provide an incentive not to report the discovered breach.

Therefore, auditor independence is viewed from the perspective of the nature of consulting services since they can be in the form of advice and consultation or contract. Thus:

- Engagement in the enterprise's management decisions makes the auditor as an employee for the enterprise, and he or she will work on achieving his or her personal interest, which impairs independence when providing opinion in financial statements.

- Auditors' independence may not be impaired when they are not engaged in management decisions since they do not have any personal interests, and the main goal of providing consulting services is increasing management and production competence and efficacy through using the enterprise's available resources.

It is worth mentioning that there are factors which affect auditor independence, mainly:

1. The audit firm size (Shockley, 1981; Gul, 1989)
2. The effect of gifts (Pany and Reckers, 1980)
3. The provision of management consulting services (MAS) by the audit firm (Shockley, 1981; Knapp, 1985; Gul, 1989; Bartlett, 1993; Teoh and Lim, 1996; Abu Bakar et al, 2005)
4. The size of the audit fees or relative client size (Gul and Tsui, 1992; Bartlett, 1993; Teoh and Lim, 1996; Pany and Reckers, 1980).

#### • Threats to Auditor Independence:

Threat to auditor independence is the risk that set limits on the auditor preventing him or her from acting fully with professional behavior. UK, European Commission, Australia, IFAC in addition to Mauritius framework identifies five threats by the "threats and safeguards" approach. As related to this approach, the frameworks identify five essential types of threats to auditor independence:

1. **Self-interest:** This threat to an auditors' independence results from a financial or other self-interest conflict. For instance, this could arise from a direct or indirect interest in a client, or from fear of losing the client.

2. **Self-review:** It is intricate to maintain objectivity in situations where a decision of a previous audit or non-audit, assignment must be challenged or reevaluated to reach audit conclusions, or when an associate of the audit group was formerly a director or officer of the audit client.

3. **Advocacy for client:** It is a threat to an auditors' objectivity which results from auditors who become advocates for, or against their client in any adversary proceedings or conditions. Examples of this confusion of roles may occur when acting as an advocate on behalf of the client in litigation; or when the client take legal action against the auditor who is promoting or dealing in shares or securities issued by the client.

4. **Intimidation by clients:** It is possible that auditors may be intimidated by threat, by a controlling personality, or by other pressures such as their client's director or manager or by some other party. These threats include replacing the auditor which prevents them from accounting objectively.

5. **Familiarity to trust:** This occurs when auditors become over-influenced by the characters and/or personalities of their clients' directors and/or superior managers, which makes them accordingly, too considerate for their interest. On the other hand, auditors may grow to be too trusting of management representations and thus, unsatisfactorily meticulous in their audit testing.

#### • Consulting Services and Fees

When providing consulting services, an auditor's fees play a significant and essential role where the fees should be specific, reasonable and common. When supplying these services leads to increasing the auditors' and audit firms' income, many organizations find that the fees affect auditors' opinion regarding financial statements relative to the audit,

and thus, impair their code of professional conduct wherein these fees are unusual. Therefore, all consulting services fees in addition to auditing financial statement fees should be disclosed. Also, consulting services and time interval for receipt of the results should be specified, along with the maximum cost expected for the enterprise to pay for those services.

### Field Study

In this section of the study, we present the methodology we followed in the questionnaire, its results, procedures of implementation and statistical remedial methods.

#### Society and Sample of the Study:

**Certified Accountants:** The sample we choose for the questionnaire included only practicing certified accountants who are members of the Lebanese Association of Certified Public Accountants. They were chosen rather than others considering their practical experience in accounting and auditing in addition to being involved in preparing financial statements on which evaluations of organizations are based. Also, certified accountants are more liable to legal questioning than others because of their opinions in financial statements. According to the Lebanese Association of Certified Public Accountants, the number of certified accountant in Lebanon is 1600, of which only 870 are in practice. The targeted sample included 150 certified accountants of which 145 responded. Four of the responses were excluded because they were not valid. Table (1) illustrates:

**Table (1) Number of distributed, received and valid questionnaires**

Sample of the study	Sample Number			Percentage of Valid Responses
	Distributed	Received	Valid Responses	
Certified Public Accountants	150	145	141	94%

From the above table, it is evident that the percentage of the valid received responses was 94%, which is an acceptable percentage for scientific research, and the researchers can depend upon it.

#### Tool of the study

The researchers devised the questionnaire as required in the hypotheses of the study using Likert 5 point Scale changing the descriptive responses into quantitative ones. Thus, the descriptive responses were expressed in numbers as shown in Table (2).

**Table (2) Coding the Responses according to the Materiality Measure**

Materiality Degree	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	5	4	3	2	1

The researchers used a three-level-scale to measure how much the members of the sample value consulting services and their impact on an auditor's code of professional conduct. The researchers got the difference between the highest and lowest value on the scale and divided it by three levels:

$$(5-1) \div 3 = 1.33$$

The three levels will be as follows:

- Low level of agreement (1—2.33)
- Medium level of agreement (2.34—3.67)
- High level of agreement (3.68—5)

To diagnose the sample's positive and negative responses, the standard (3) was determined by adding the highest and lowest value and dividing it by (2):



$$(5+1) \div 2 = 3$$

- Range of negative response (1—2.99)
- Range of positive response (3—5)

The questionnaire includes the following two sections:

The first section is for the sample's demographic characteristics of scientific degree, major, years of experience and professional certificates.

The second section includes 25 articles classified into three categories as follows:

1. Impact of Consulting Services on an auditor's code of professional conduct.
2. Impact of consulting services on an auditor's independence.
3. Impact of consulting services on an auditor's fees.

### Reliability of Study Tool

To measure internal consistency ("reliability") of the questionnaire, the researchers used the Cronbach's Alpha Coefficient which was 0.916, equivalent to 91.6%. This is a high percentage which can be relied upon in social researches since the acceptable percentage in such case is 60%.

Table (3)

Variables	Number of Articles	Cronbach's Alpha
Auditor's code of professional conduct	10	0.885
Auditor's independence	7	0.812
Auditor's fees	8	0.917
Total	25	0.916

### Statistical Methods Used in the Study

To reach the goals of the study and analyze the collected data many appropriate statistical methods were utilized using the SPSS as follows:

1. **Pearson Correlation Coefficient:** It was used to verify the reliability of the study tool through internal consistency of the questionnaire's articles.

2. **Frequency and Percentages:** It was used to identify the characteristics of individuals in the sample study of certified public accountants in Lebanon.

3. **Mean:** It was used to recognize how high or low are the responses of the sample on each article of the questionnaire.

4. **Standard Deviation:** It was used to identify dispersion of the sample members' answers from the mean value.

5. **One Sample Kolmogorov–Smirnov Test (K-S Test):** It was used to verify whether data articles of the study are subject to normal distribution.

6. **One Sample T Test:** This test was used to measure the impact of consulting services on the related articles of the study.

### Applying Tests and Statistical Methods and Analyzing Results

- Normal Distribution Test (One Sample Kolmogorov–Smirnov Test): This is a necessary test in the case of testing hypotheses since most of the parametric tests require that data distribution is normal. Table (3) illustrates the results of the test where the significance value of all articles is more than 0.05 which indicates that the data follows normal distribution and that parametric tests should be used.

**Table (4) One-Sample Kolmogorov–Smirnov Test**

Context	Number of Articles	Z Value	Significance Value
Auditor’s code of professional conduct	10	1.091	0.185
Auditor’s independence	7	0.998	0.272
Auditor’s fees	8	1.257	0.085
Impact of Consulting Services	25	0.466	0.877

- Calculating Frequency and percentages to identify the demographic characteristics of the sample and identifying its members’ responses to the articles of the study tool:

a- Certificate

**Table (5) Classification of sample according to certificate:**

Certificate	Number	Percentage
BA	93	65.96%
MA	48	34.04%
PhD	0	0%
Total	141	100%

It is evident from table (5) that 65.96% of the auditors hold BAs which is the highest percentage. The rest of the auditors (34.04%) hold MAs. However, none of the sample auditors has PhD which indicates that most of them go directly to the market after they graduate. Nevertheless, the auditors are well educated and have the ability to comprehend the articles of the questionnaire and respond to them.

b- Major

**Table (6) Classification of sample according to major:**

Major	Number	Percentage
Accounting	114	80.85%
Economy	6	4.25%
Management	15	10.64%
Banking and Finance	6	4.26%
Total	141	100%

From Table (6), it is clear that 80.85% of the sample auditors majored in Accounting, 10.64% majored in Management, 4.25% majored in Economy, and 4.26% majored in Banking and Finance. Thus, the majority of the auditors are accountants, which is normal since auditing is based on accounting and most auditors who are practitioners majored in Accounting.

c- Years of Experience:

**Classification of sample according to years of experience:**

Years of Experience	Number	Percentage
Less than 5	8	5.67%
5 to less than 10	23	16.32%
10 to less than 15	72	51.06%
More than 15	38	26.95%
Total	141	100%

Table (7)

Table 7 shows that 5.67% of the sample auditors have less than 5 years of experience, 16.32% of them have an experience between 5 and 10 years, 51.06% of them have an experience between 10 and 15 years, and 26.95% have more than 15 years of experience. The interesting thing is that 78.01% of the sample auditors have an experience exceeding 10 years which indicates that there is stability and that they are capable of comprehending the items of the questionnaire.

#### Analyzing Results of the Questionnaire's Items:

**Table (8) First Domain (Impact of Consulting Services on an Auditor's Code of Conduct)**

NO.	Items	Mean	Standard Deviation
1	Providing consulting services for the enterprise under audit conflicts with auditor's code of ethics.	2.66	1.249
2	By accepting to supply consulting services that he can't accomplish, the auditor's code of ethics is negatively affected.	3.86	1.020
3	The presence of an efficient control over the consulting services supports auditor's professional conduct.	3.75	0.994
4	Auditor's commitment to legal articles related to supplying consulting services for the enterprise increases under laws that punish in case of violation.	3.93	0.879
5	When the auditor supplying consulting services shifts from protecting the enterprise's interests to protecting the enterprises management, it affects his professional conduct negatively.	3.46	1.025
6	Supplying double services to an enterprise (auditing + consulting services), affects the auditor's professional conduct negatively.	2.99	1.247
7	When the auditor reduces his fees for consulting services to attract his colleagues' clients, this affects the auditor's professional conduct negatively.	3.63	1.114
8	The presence of mandatory professional standards for consulting services affects the auditor's professional conduct positively.	3.79	0.879
9	If the auditor focuses on consulting services for an enterprise under audit, this will lead to neglecting his main profession related to auditing, which will affect his professional conduct negatively.	3.01	1.161
10	By revealing the results of consulting services he is commissioned with by the enterprise under audit, the auditor's code of professional conduct is affected negatively.	3.87	0.933
All items		3.451	0.605

The results in the above table show an increase in the domain mean (Impact of Consulting Services on an Auditor's Code of Conduct) where it is (3.451) at a standard deviation of (0.605).

It also shows that the mean is higher than the test standard (3 out of 5), so the level evaluation of the sample was medium and positive in all articles of the domain.

From the above results, the sample study's opinions were positive in all articles of the domain (Impact of Consulting Services on an Auditor's Code of Conduct) except for the first and sixth articles where the mean was 2.66 and 2.99 respectively. When these are compared to the mean of all articles (3.451), it becomes evident that responses of the sample study on these two articles was medium and close to being neutral, which indicates the neutrality of the sample study in the domain (Impact of Consulting Services on an Auditor's Code of Conduct) in general. Regarding the sample study's responses on the remaining articles of the domain (Impact of Consulting Services on an Auditor's Code of Conduct), they were all positive compared to the total mean (3.451), where the mean in those articles ranged between 3.01 and 3.93. The fourth article in the domain, which states that an auditor's commitment to legal articles related to supplying consulting services for the enterprise increases under laws that punish in case of violation, came in first place with a mean of 3.93 and a standard deviation of 0.879. This means that enhancing the role of professional parties in penalizing auditors who do not abide by the legislations will have a positive role in raising the auditing profession's level. Whereas the ninth article of the domain, which states that "If the auditor focuses on consulting services for an enterprise under audit, this will lead to neglecting his main profession related to auditing, which will affect his professional conduct negatively", got rank eight with a mean of 3.01.

Table (9) **Second Domain (Impact of Consulting Services on an Auditor's Independence)**

No.	Items	Mean	Standard Deviation
11	Mutual interests between the auditor and the management affect his independence negatively through commissioning him with providing consulting services.	3.68	1.087
12	The management of the enterprise exploits the auditor to influence his opinion in the financial statements by commissioning him to supply additional consulting services.	3.15	1.115
13	The management's interference in defining the auditor's fees for consulting services will affect the auditor's professional opinion about financial statements.	3.07	1.090
14	Supplying consulting services to an enterprise under audit creates personal interests which affect the auditor's independence.	3.04	1.118
15	Supplying consulting services to an enterprise under audit affects quality of auditing, which will negatively affect the auditor's independence.	2.82	1.194
16	By not acquiring a prior consent from the audit committee about the quality of consulting services, the auditor's independence is negatively affected.	3.13	1.108
17	Fees that the auditor charges the enterprise for consulting services negatively affect his independence.	2.96	1.128
All Items		3.112	0.883

The results in the above table show that the domain mean (Impact of Consulting Services on an Auditor's Independence) was medium, where it is (3.112) at a standard deviation of (0.883). The table also shows that the mean is higher than the test standard (3 out of 5), which indicates that there was medium and almost neutral agreement on all articles of the domain. This result means that the sample study members are positive and almost neutral about the impact of consulting services on an auditor's independence.

It is also evident from the table that the sample study's opinions were positive in all articles of the domain (Impact of Consulting Services on an Auditor's Independence) except for articles 15 and 17, where their mean was 2.82 and 2.96 respectively, as compared to the mean of all articles (3.112). The sample study's responses on the remaining articles of the domain (Impact of Consulting Services on an Auditor's Independence) were positive, where the mean ranged between 3.04 and 3.68 as compared to the mean of the domain (Impact of Consulting Services on an Auditor's Independence) at 3.112. The first article in this domain (No. 11), which states "Mutual interests between the auditor and the management affect his independence negatively through commissioning him with providing consulting services", came in first place with a mean of 3.68 at a standard deviation of 1.087. Whereas the fourth article in the domain (No. 14), which states "Supplying consulting services to an enterprise under audit creates personal interests which affect the auditor's independence", came in fifth place with a mean of 3.04 at a standard deviation of 1.118 as compared to the mean and standard deviation of the domain as a whole.

Table (10) **Third Domain (Impact of Consulting Services on an Auditor's Fees)**

No.	Items	Mean	Standard Deviation
18	Auditing fees are reduced when the auditor is commissioned with consulting services for the same enterprise.	3.19	1.139
19	Auditor's fees for consulting services are affected by the responsibility related to performing the service.	3.40	0.929
20	The presence of other parties that compete with the auditor in supplying consulting services negatively affects his fees.	3.60	0.929
21	Financial reliance on the enterprise through consulting services fees negatively affects the auditor's report on financial statements.	3.03	1.173
22	The auditor's fees for consulting services are negatively affected if he didn't fulfill the enterprise's wishes and demands.	3.08	1.019
23	The auditor's fees for consulting services are affected by the level of financial risk of the enterprise under audit.	3.55	0.965
24	The auditor biases for the enterprise as a result of charging it fees for consulting services.	2.99	1.122
25	Increasing fees for consulting services leads to neglecting the operation of auditing financial statements.	2.70	1.150
All Items		3.209	0.670

The results in the above table show an increase in the domain mean (Impact of Consulting Services on an Auditor's Fees) where it is (3.209) at a standard deviation of (0.670). It also shows that the mean is higher than the test standard (3 out of 5), so the level evaluation of the sample was medium and positive in all articles of the domain.

It is also evident from the table that the sample study's opinions were positive in all articles of the domain (Impact of Consulting Services on an Auditor's Fees) except for articles 24 and 25 whose means are 2.99 and 2.70 respectively as compared to the mean of all articles (3.209). The sample study's responses on the remaining articles of the domain (Impact of Consulting Services on an Auditor's Fees) were positive where the mean ranged between 3.04 and 3.60 as compared to the mean of the domain (Impact of Consulting Services on an Auditor's Fees) at 3.209. The third article (No. 20) came in first position with a mean of 3.60 at a standard deviation of 0.929, which shows the reason behind the auditors' refusal to supply consulting services (the presence of other parties that compete with the auditor in supplying consulting services) which results in lower fees. Whereas article 21, which states "Financial reliance on the enterprise through consulting services fees negatively affects the auditor's report on financial statements", came in sixth position with a mean of 3.04 and a standard deviation of 1.173 as compared to all articles' mean and standard deviation.

### Testing the Hypotheses of the Study

#### Testing the First Hypothesis

This hypothesis states that there are no differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's code of professional conduct.

The researchers used the one sample t-test to test this hypothesis. The results are shown in the table below, which shows the opinions of the members in the sample about the impact of consulting services on an auditor's code of professional conduct. In general, it is evident that the mean for all articles of the questionnaire is 3.451. The computed t value is 8.704, which is more than the critical value (1.96), and the significance is 0.000, which is less than  $\alpha \leq 0.05$ . Consequently, the null hypothesis is rejected and the alternative hypothesis, which states that there are differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's code of professional conduct, is adopted.

(Table 11) Results of one sample t- test about the impact of consulting services on an auditor's code of professional conduct:

Domain	Mean	Standard Deviation	Relative Weight	Computed t-value	Significance	Statistical Decision
Impact of consulting services on an auditor's code of professional conduct	3.451	0.605	69	8.704	0.000	Rejecting null hypothesis

Critical T-value at  $\alpha \leq 0.05$  significance is 1.96, and the test is two-tailed

#### Testing the Second Hypothesis

This hypothesis states that there are no differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's independence.

To test this hypothesis, the researchers used the one sample t-test. The results are shown in the table below, which shows the opinions of the members in the sample about the impact of consulting services on an auditor's independence. In general, it is evident that the mean for all articles of the questionnaire is 3.112, and the computed t-value is 1.481, which is less than the critical t-value (1.96). The significance is 0.141, which is greater than  $\alpha \leq 0.05$ . Thus, the null hypothesis is adopted while the alternative hypothesis, which states that there are no differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's independence, is rejected.

**(Table 12) Results of one sample t- test about the impact of consulting services on an auditor's independence:**

Domain	Mean	Standard Deviation	Relative Weight	Computed t-value	Significance	Statistical Decision
Impact of consulting services on an auditor's independence	3.112	0.883	62.24	1.414	0.141	Adopting null hypothesis

Critical T-value at  $\alpha \leq 0.05$  significance is 1.96, and the test is two-tailed

### Testing the Third Hypothesis

This hypothesis states that there are no differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's fees.

To test this hypothesis, the researchers used the one sample t-test. The results are shown in the table below, which shows the opinions of the members in the sample about the impact of consulting services on an auditor's fees. In general, it is evident that the mean for all articles of the questionnaire is 3.209, and the computed t-value is 3.639, which is greater than the critical t-value (1.96). The significance is 0.000, which is less than  $\alpha \leq 0.05$ . Thus, the null hypothesis is rejected while the alternative hypothesis, which states that there are differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's fees, is adopted.

**(Table 13) Results of one sample t-test about the impact of consulting services on an auditor's fees:**

Domain	Mean	Standard Deviation	Relative Weight	Computed t-value	Significance	Statistical Decision
Impact of consulting services on an auditor's fees	3.209	0.670	64.18	3.639	0.000	Rejecting null hypothesis

Critical T-value at  $\alpha \leq 0.05$  significance is 1.96, and the test is two-tailed

**Finally, the researchers summed up the results of the research hypotheses in the following table:**

Hypothesis	Decision	Result
First	Rejecting the null hypothesis	There are differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's code of professional conduct.

Second	Adopting the null hypothesis	There are no differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's independence.
Third	Rejecting the null hypothesis	There are differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's fees.

### **Conclusions:**

- The results of the statistical analysis related to the first hypothesis showed that there are differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's code of professional conduct. The results showed that consulting services that Lebanese auditors provide for an enterprise under audit has an impact on an auditor's code of professional conduct, which may be justified through the Lebanese auditors' awareness of the risk behind providing consulting services to an enterprise under audit, in addition to the presence of sanctions in the case of not complying with the code of professional conduct.

- The results of the statistical analysis related to the second hypothesis showed that there are no differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's independence. The results showed that consulting services provided by Lebanese audit firms to enterprises under audit do not have an impact on an auditor's independence, which is because the study targeted certified auditors who are supposed to be independent in their profession.

- The results of the statistical analysis related to the third hypothesis showed that there are differences of statistical significance in opinion among the Lebanese auditors about the impact of consulting services on an auditor's fees. The results showed that consulting services provided by Lebanese audit firms to an enterprise under audit have an impact on an auditor's fees. This is because auditors depend financially on the enterprise under audit through fees for consulting services. On the other hand, an auditor's fees can be affected if he doesn't comply with the enterprise's wishes and demands.

### **Recommendations**

As a result of what has been reached in the study, the most important recommendations can be summed up as follows:

1. It is necessary that Lebanese auditors don't agree to provide consulting services before making sure that providing such services don't conflict with an auditor's independence or code of professional conduct, which can be achieved through determining the domains of consulting services that can be provided for an enterprise under audit.

2. The Ministry of Finance and the Lebanese Association of Certified Public Accountants should induce legislation related to sanctions and irregularities against auditors who don't comply with their professional duties when providing consulting services.

3. The Ministry of Finance and the Lebanese Association of Certified Public Accountants should identify, in a clear-cut and detailed transcript, the conditions that should be available for an auditor to provide consulting services.

4. Consulting services should be organized in a way that their fees don't affect the auditing fees or the audit itself.



5. Professional parties, including Lebanese Association of Certified Public Accountants, should hold sessions, workshops, seminars, etc, to educate auditors who have little experience on the importance of commitment to the code of professional conduct.

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Dear Mr(s).

Greetings,

We would like to point out that the following questionnaire was prepared to elicit your opinion about the study that the researchers are preparing “**The Impact of Consulting Services on an Auditor’s Independence – Field Study on Audit Firms in Lebanon**”. There is no doubt that your choice of the appropriate and precise response will have significant effect on finishing it and on reaching realistic and beneficial results, knowing that answers to this questionnaire will be merely used for technical purposes,

assuring that data will be processed completely confidentially and you will be provided with the result of the study when it is done in case you wanted to take note of it.

The researchers will be glad to take any additions or technical remarks which you can write on the blank sheets. The researchers will also be ready to respond to any observation or questions related to the questionnaire and the concepts mentioned in it.

Thank you for your cooperation

### First: General Information

Certificates:

BA	
MBA	
PhD	

Major:

Accounting	
Economy	
Business Management	
Banking	

Years of Experience:

Less than 5 years	
5 to less than 10 years	
10 to less than 15 years	
15 or more	

Other Certificates:

CPA	
CMA	
CIA	
Other (mention it)	

### Second: The Questionnaire

Number	Passage	Strongly Agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly Disagree (5)
1	Providing consulting services for the enterprise under audit conflicts with auditor's code of professional conduct.					
2	By accepting to supply consulting services that he can't accomplish, the auditor's code of professional conduct is negatively affected.					
3	The presence of an efficient control over the consulting services supports auditor's professional conduct.					
4	Auditor's commitment to legal articles related to supplying consulting services for the enterprise increases under laws that punish in case of violation.					
5	When the auditor supplying consulting services shifts from protecting the enterprise's interests to					

	protecting the enterprises management, it affects his professional conduct negatively.					
6	Supplying double services to an enterprise (auditing + consulting services), affects the auditor's professional conduct negatively.					
7	When the auditor reduces his fees for consulting services to attract his colleagues' clients, this affects the auditor's professional conduct negatively.					
8	The presence of mandatory professional standards for consulting services affects the auditor's professional conduct positively.					
9	If the auditor focuses on consulting services for an enterprise under audit, this will lead to neglecting his main profession related to auditing, which will affect his professional conduct negatively.					
10	By revealing the results of consulting services he is commissioned with by the enterprise under audit, the auditor's code of professional conduct is affected negatively.					
11	Mutual interests between the auditor and the management affect his independence negatively through commissioning him with providing consulting services.					
12	The management of the enterprise exploits the auditor to influence his opinion in the financial statements by commissioning him to supply additional consulting services.					

Number	Passage	Strongly Agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly Disagree (5)
13	The management's interference in defining the auditor's fees for consulting services will affect the auditor's professional opinion about financial statements.					
14	Supplying consulting services to an enterprise under audit creates personal interests which affect the auditor's independence.					
15	Supplying consulting services to an enterprise under audit affects quality of auditing, which will negatively affect the auditor's independence.					

16	By not acquiring a prior consent from the audit committee about the quality of consulting services, the auditor's independence is negatively affected.					
17	Fees that the auditor charges the enterprise for consulting services negatively affect his independence.					
18	Auditing fees are reduces when the auditor is commissioned with consulting services for the same enterprise.					
19	Auditor's fees for consulting services are affected by the responsibility related to performing the service.					
20	The presence of other parties that compete with the auditor in supplying consulting services negatively affects his fees.					
21	Financial reliance on the enterprise through consulting services fees negatively affects the auditor's report on financial statements.					
22	The auditor's fees for consulting services are negatively affected if he didn't fulfill the enterprise's wishes and demands.					
23	The auditor's fees for consulting services are affected by the level of financial risk of the enterprise under audit.					
24	The auditor biases for the enterprise as a result of charging it fees for consulting services.					
25	Increasing fees for consulting services leads to neglecting the operation of auditing financial statements.					