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The perceptions of loan officers and auditors of factors affecting auditor independence: Evidence from Palestine

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C H R O N I C L E

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A B S T R A C T

The study investigates the perceptions of external auditors and loan officers regarding external auditor's independence in Palestine. Data were gathered using a questionnaire developed by the author and include 5 main issues related to the perception of external auditor's independence. The sampling population identified for this study consists of external auditors working in domestic and international audit firms and financial statement users mainly loan officers in Palestine. The sample included 79 auditors and 76 loan officers. The findings revealed that there are significant differences in the perceptions of external auditors and loan officers in relation to provision of non-audit services, auditor's economic dependence on a single audit client, and long relationship between an auditor and a client. The results revealed mixed results about the effect of presence of active audit committee on independence of the external auditors. Furthermore, acceptance of significant gifts from the client was considered an important factor that may influence auditor independence by loan officers and external auditor and thus significant differences between the two respondent groups were found in relation to acceptance of significant gifts from the client. These findings can be useful to policy makers and professional auditing bodies in Palestine on setting new regulations or strengthening existing ones to enforce auditor's independence in Palestine.

1. Introduction

The potential conflict of interest between the entity's management and stockholders is a significant reason for the appointment of an independent auditor. External auditors are considered as intermediaries between the management and the external parties of the entities. The auditors' duty is to provide an opinion whether the financial statements of the entity reflect a true and fair view of the entity's financial position and performance. Users of the financial statements will rely on the auditor' opinion on the financial statements. Therefore, it is essential that the auditor should be independent of the entity's management (Porter, 1993). The concept of independence of the auditor is fundamental to public confidence in the auditing profession. Without auditor's independence, an audit is virtually worthless. There are two aspects of auditor independence; independence of mind (or independence in fact) and independence in appearance. Independence of mind is the state of mind that permits the expression of audit opinion without being affected by influences that impair integrity and objectivity. However, independence in appearance, is the avoidance of facts and circumstances that are so significant that third parties would be likely to conclude that auditor's integrity, objectivity or professional skepticism has been compromised (IFAC, 2010).

The International Federation of accountant's Code of Ethics described examples for specific circumstances and relationships that may create threats to auditor's independence. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The IFAC indicated that these examples are not all inclusive because it is impossible to define every situation that creates threats to independence and

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specify the appropriate action that should be taken. The IFAC's Code of Ethics stated that the followings circumstances and relationships may impair auditor's independent:

- Holding a direct financial interest or a material indirect financial interest in the audit client,
- A loan, or a guarantee of a loan, to the audit firm from an audit client member or their immediate family may create a threat to independence. If a loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution to a member of the audit team, or a member of his immediate family is made under normal lending procedures and conditions, it will not be considered as a threat to independence,
- Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client,
- Family and personal relationships between a member of the audit team and a director or officer or certain employees (depending on their role) of the audit client may create self-interest, familiarity that may lead to the impairment of auditor's independence,
- Provision of non-assurance services to audit clients such as preparing accounting records and financial statements and internal audit services,
- When the total fees from an audit client represent a large proportion of the total fees of the auditing firm. In such case, the dependence on that client and concern about losing the client creates threat to the independence of the auditor and,
- Accepting gifts or hospitality from an audit client may create self-interest and familiarity that may impair the independence of the auditor.

The issue of auditor's independence has been subjected to extensive research especially after a series of accounting scandals and collapses of eminent companies such as Enron, WorldCom, Sunbeam, Global Crossing and Tyco. The issue of auditor's independence and conflict of interest have been questioned after these scandals. In recent years, the issue of auditor's independence, particularly factors that influence independence, has become a major area of research. Several studies investigated factors that determine auditor independence as perceived by auditors and different categories of users of the financial statements in different economic environment (Nieschwietz & Woolley, 2009; Haniffa & Hudaib, 2007; Abu Bakar et al. 2005; ; Bartlett, 1993; Hodge, 2003).In Palestine, to the best of author's knowledge, there is no empirical study that has yet examined the impact of different factors that impair of enhance auditor's independence as perceived by auditors and users of financial statements.

The aim of this paper is therefore to investigate the perceptions of loan officers as an important users of audit reports and external auditors regarding significant issues that may have influence on auditor independence. These issues are: provision of non-audit services to audit clients, auditor's economic dependence on a single audit client, long audit tenure, the presence of audit committee in the auditee firm, and auditor's acceptance of significant gifts from the client. In particular, this manuscript aims to seek the answer of the following questions:

Q1: What are the most important factors that influence auditor independence as perceived by loan officers and auditors in Palestine?

Q2: Are there significant differences in the opinions of loan officers and auditors in regards with factors affecting auditor independence in Palestine?

The remainder of the manuscript is organized as follows. Section two presents the literature review on auditor's independence. Section three describes the hypotheses of the study. Section four presents study methodology including data. Empirical results and discussions are described in section four. Conclusions that have been drawn from the results of the study and limitations are presented in the last section.

2. Literature Review

Auditor independence is regarded as a cornerstone of the auditing profession (Firth, 1980; Mautz and Sharaf 1961). The concept of auditor's independence originated from the reason for the existence of auditing itself, which is the need for reliable financial statements and justifies the existence of the auditing profession (Pany and Reckers, 1983). However, there has been ongoing controversy about the definition of auditor's independence for many years. DeAngelo (1981) defined the level of auditor independence as the conditional probability that the auditor will report a discovered breach. Pany and Reckers (1988) described auditor's independence as the ability to act with integrity and objectivity. Knapp (1985) referred to auditor independence as the ability to resist client pressure. Furthermore, Bartlett (1993) stated that auditor's independence is the unbiased mental attitude in making decisions about the work of audit and financial reporting. Indeed, there are two aspects of auditor independence; independence of mind (or independence in fact) and independence in appearance (Beattie et al. 1999). Independence in fact is an unbiased mental attitude of the auditor, while independence in appearance (perceived independence) is the perception by a reasonable observer that the auditor has no relationship with an audit client that would suggest a conflict of interests (Beattie et al. 1999). The value of the auditing profession depends heavily on the public's perception of the independence of the auditor. Independence in fact is a frame of mind that is impossible to measure. Therefore, regulations regarding auditor independence tend to focus on the perception of independence by the public (Nieschwietz and Woolley, 2009). If the auditor is not perceived to be independent by the stakeholders, less confidence in the financial statements will be assumed and therefore, the auditor's opinion on the company's financial statements will be of no or low value. The credibility of auditors depends not only on independence in mind (or in fact) but also, just as importantly, on the independence in appearance (Abu Bakar et al., 2005).

Thus, the independence in appearance depends on the public's perception of what could impair the auditor's independence. The majority of prior studies on the auditor's independence investigated the factors which potentially influence independence of the auditor as perceived by the financial statements' users. Lin and Chin (2004) found that audit beneficiaries (e.g., investors, creditors, government officials, business management, and academics) are dissatisfied with the independence status of auditors in China. The study also indicated that auditors and audit beneficiaries hold different views on whether government sponsorship of auditing firms impairs the credibility of audit reports. The study also pointed out that users of the financial statements agreed that the relationships between auditing firms and their government sponsors had a negative effect on the credibility of audit reports. Haniffa and Hudaib (2007) found that there are differences in the perceptions of auditors and users of the financial statements regarding the provision of non-audit services (such as bookkeeping, tax services and management advisory services). Interviews made with auditors revealed that they do not expect any problems in the provision of bookkeeping and management advisory services to their clients. The study also indicated that users of the financial statements believe that the provision of tax services by auditing firms will impair the independence of the auditors.

Other studies investigated the differences in perceptions of the users of the financial statements regarding the auditee's independent. Swanger and Chewning, (2001) examined the effect of performing internal audit functions by the external auditors on the perceptions of financial analysts of auditor independence. The results indicated that financial analysts perceive external auditor's independence to be impaired by performing internal audit functions. Pany and Reckers (1980) indicated that accepting gifts from the client even a minimal amount significantly affected shareholder's perceptions of auditor independence. Furthermore, the study of Dart, (2011) found that economic dependence (Where an auditor is dependent upon a client for over 10% of its income) and the provision of non-audit services are perceived by UK investors to have greater threats to auditor independence.

In recent years, the debate over threats to audit independence has been extensive, especially after the accounting scandals of famous firms rocked the business world in the beginning of 2000s. The public's general perception is that the impaired independence of the auditor is partially responsible for recent financial scandals and investors losses (Anandarajan et al. 2008). Following these accounting scandals, the Sarbanes Oxley Act (SOX) was enacted in July 2002. One of the main objectives of the SOX is to strengthen auditor independence. The SOX contains rules that restrict the provision of non-audit services to the client (such as bookkeeping, internal audit outsourcing, and managerial or human resources functions). The SOX also requires that the audit committee of a public company should be responsible for appointment, compensation, and oversight of the work of the auditor. Furthermore, the SOX requires the auditor to rotate off audit engagement after five years (SOX, 2002).

Several studies examined the public's perceptions of the auditor independence after SOX. Some of these studies found that the SOX does not affect the perceptions of the public about the independence of the auditor. Other studies found that the new arrangements of the SOX enhanced auditor independence as perceived by the public. For example, Hodge (2003) indicated that investors perceived auditor's independence to be declined over time, even in the post-SOX period. However, the study of Nieschwietz and Woolley (2009) pointed out that the auditors and users of the financial statements (loan officers, sophisticated financial statement users and the general public) believe that the SOX provisions enhance independence of the auditor. The study also concluded that there is still a significant expectation gap, regarding auditor's independence between auditors and users of the financial statements.

The perceptions of auditor's independence by the public is still one of the controversial issues in auditing. Some argue that it is impossible for the auditor to be independent for many factors. There are psychological factors that could have a significant impact on auditor's independence. As the auditor works closely with client personnel, a close relationship may exist between them. The auditor may work hard to look good in the eyes of the client in order not to lose him. These psychological factors may have significant effects on the audit firm's independence. In addition, there is a tendency for external auditors to avoid giving qualified or adverse reports to their clients. Most audit firms provide unqualified audit reports to their clients. This may imply that either audit firms tend to provide unqualified opinions in order to appear as a provider of good assurance services to their clients, or the financial statements are rarely misstated.

It is difficult to believe that financial statements are rarely misleading (Sacramento, 2001). The Association of Certified Fraud Examiners (ACFE), stated that nearly $2.9 trillion were lost due to fraudulent financial statements, asset misappropriation, and corruption in 2011 worldwide (ACFE, 2011). Furthermore, the external auditor is dependent on the client to pay the audit fee. Fee pressure is considered as an important factor that affects the independence of the auditor regardless of the percentage of these fees relative to the total audit fees. The audit clients could have a degree of influence over the auditor due to audit fees (Firth 1980). Some may argue that auditor's independence is maintained when the fees received from a client are small relative to the total revenues of the audit firm. However, the audit firms have to keep existing clients and attract new ones in order to stay in business. As the proverb says "he who pays the piper can call the tune". Thus, the debate regarding auditor's independence does not seem to be closed.

3. Hypotheses Development

The present study applies a framework of auditor's independence through investigating independence threatening factors. The study addresses the significant issues of independence by exploring the perceptions of auditor's independence between auditors and loan officers. Accordingly, the following hypotheses were generated based on the objectives of the study:

H1: There are no significant differences between loan officers and professional investors in their perceptions of auditor independence in relation to the provision of Non- Audit services.

H2: There are no significant differences between loan officers and professional investors in their perceptions of auditor independence in relation to the Auditor's economic dependence on a single audit client.

H3: There are no significant differences between loan officers and professional investors in their perceptions of auditor independence in relation to the length of auditor tenure.

H4: There are no significant differences between loan officers and professional investors in their perceptions of auditor independence in relation to the existence of active audit committees.

H5: There are no significant differences between loan officers and professional investors in their perceptions of auditor independence in relation to the Acceptance of significant gifts from the client.

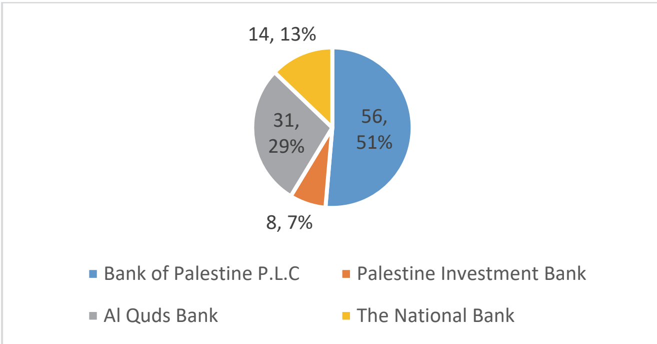
4. Methodology

4.1. Instrument and Procedures

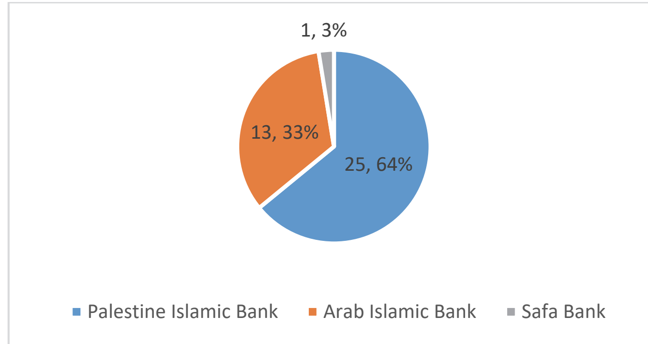
Data of this study were gathered using a questionnaire developed by the author. Literature on prior empirical studies revealed that the dominant method of this field of research is quantitative questionnaire (Beattie et al., 1999; Dart, 2011; Abu Bakar et al., 2005). The quantitative method of collecting data is suited to the purpose of this study since its overall objective is to obtain the perceptions of external auditors and loan officers concerning several issues regarding independence of auditor in Palestine. Most of questionnaire items were developed from existing studies (Pany and Reckers, 1988; Mckinley et al., 1985; Beattie et al., 1999; Abu Bakar et al., 2005; Kealey et al., 2007; Sori et al., 2008; Dart, 2011) as they had been shown to be reliable. Nevertheless, additional questions were added to be suitable to the study. The questionnaire was divided into two sections. Section one dealt with demographic information for respondents including gender, age, experience and education. Section two was designed to collect information on five main issues related to the perception of external auditors and loan officers of auditor's independence. These issues are:(1) provision of non-audit services to audit clients, (2) auditor's economic dependence on a single audit client, (3) long audit tenure, (4) the presence of audit committee in the auditee firm, and (5) auditor's acceptance of significant gifts from the client. Respondents were asked to indicate the extent to which each of these issues affected auditor independence using the five-point Likert type scale.

4.2. Sample Description

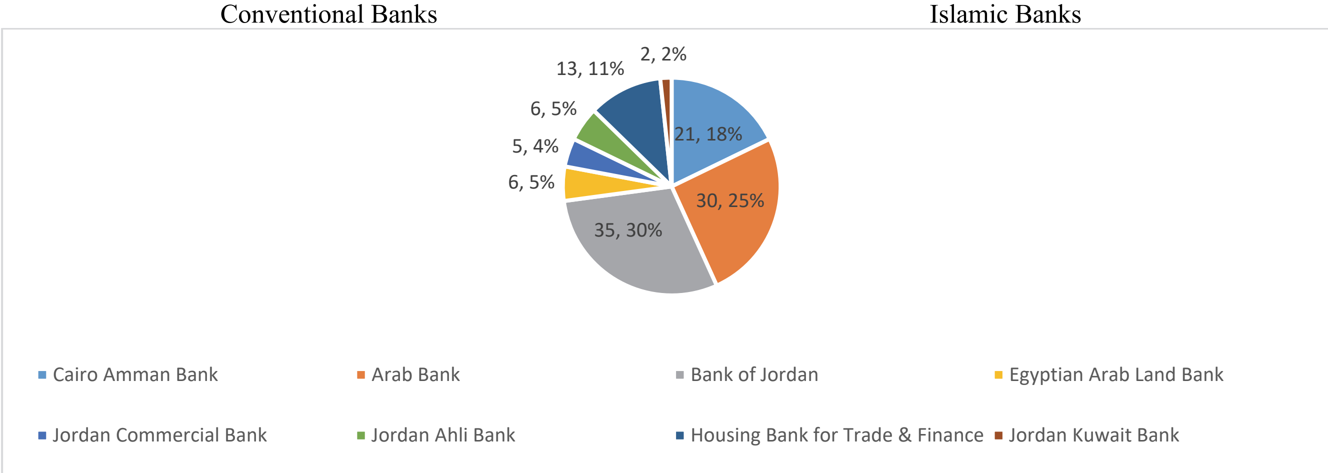
The sampling population identified for this study consists of external auditors working in domestic and international audit firms and loan officers in Palestine. The population frame for the external auditors was obtained from Palestinian Association of Certified Public Accountants (PACPA). According to the PACPA there were 230 registered external auditors as of September 2018 (PACPA, 2018). The literature review revealed that loan officers are among those most likely to use audited financial statements in making business decisions and thus most likely to understand the importance of the independence of audit function (Firth, 1980; Knapp, 1985;). Loan officers are regarded as sophisticated users of the audited financial statements and make use of accounting information in credit and business decisions (Abu Baker et al., 2005). There were 7 local and 8 foreign banks in Palestine as of September 2018 according to Palestine Monetary Authority (PMA, 2018). Local banks include 4 conventional and 3 Islamic banks. The sample population of the loan officers comprises both conventional and Islamic banks since they have similar characteristics. The difference between conventional and Islamic banks is that Islamic banks base their operations on Sharia'ah principles while conventional banks do not (Abu Baker et al., 2005). Fig. 1 below shows classifications of banks in Palestine.



Conventional Banks



Islamic Banks



Foreign Banks

Fig. 1. Banking System in Palestine as of September 2018

Source: Adapted from Palestine Monetary Authority, Statistical Bulletin and home pages of Banks as of September 2018.

Samples for both loan officers and external auditors are chosen using random sampling. The sample included 79 auditors and 76 loan officers. To test reliability of the questionnaire, the Cronbach alpha coefficient was utilized. The Cronbach alpha test is one of the most widely used indicators of the internal consistency of responses, to the degree that items of the questionnaire are independent measures of the same concept (Sekaran, 2000). The ranges for coefficient are from 0 to 1, where 0 states no internal reliability and 1 represents perfect internal reliability. The Cronbach alpha coefficients were utilized using the SPSS statistical software, for the main five sections of the questionnaire and the results are shown in Table 1. As can be observed from the table, the Cronbach alpha coefficients for all of the main sections are approximately ≥ 0.70 which indicates internal consistency of each scale (Sekaran, 2000).

Table 1
Results of Cronbach alpha coefficients

	Cronbach alpha coefficient	
	External Auditors (N =79)	Loan Officers (N = 76)
Provision of Nun-audit Services	0.753	0.783
Economic Dependence on A Single Audit Client	0. 771	0.723
Long audit tenure	0.801	0.795
The Presence of Audit Committee	0. 736	0.726
Acceptance of Significant Gifts from the Client	0. 682	0.704

5. Findings and Discussion

In order to collect the required information, a sample of 189 and 174 questionnaires (pre-tested) were distributed to external auditors and loan officers respectively. As a result, 79 usable responses were received from external auditors and 76 from loan officers representing (42%) and (44%) response rates respectively. Fig. 2 presents the demographic information for both respondent groups. The results show that males represent the majority (83%) of auditors' groups while only (17%) belong to females. However, among loan officers' groups there were slightly more males (59%) than females (41%). In addition, about (85%) of the ages of external auditors were more than 35 and the remainder (15%) were less than 35. Among loan officer groups (58%) were less than 35 and (42%) were 35 or above years old. (81%) of external auditors had experience 8 years or above and approximate proportion of loan officers (78%) had the same amount of experience in their particular fields. The sample also showed that (70%) of auditors have B.A degrees and (30%) hold graduate degrees, in contrast (75%) have B.A degrees and (25%) have completed master degrees from the loan officers' group.

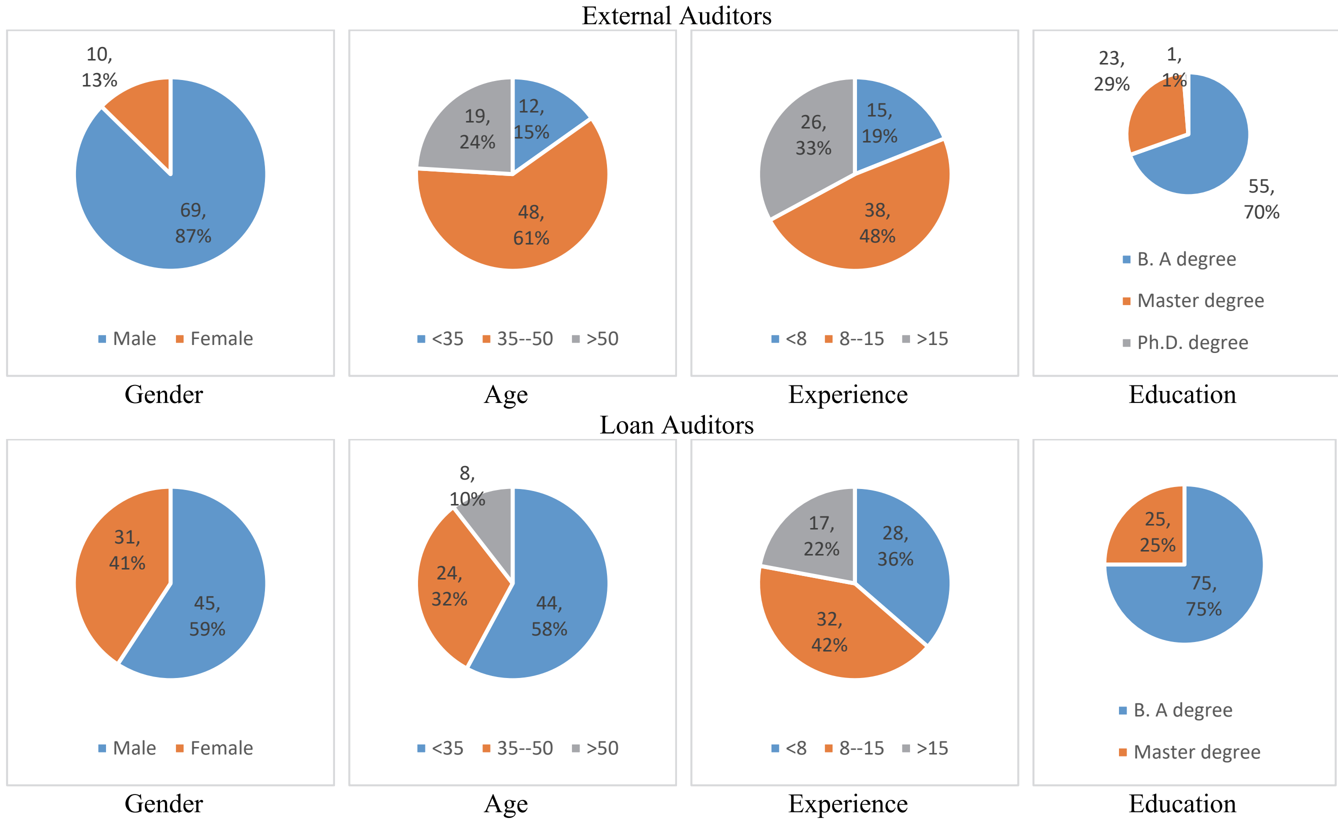


Fig. 2. Demographic Data for Loan Officers and Auditors in the Sample

6. The Results of Hypothesis Testing

The main goal of the current research is to explore the differences in the perceptions of external auditors and loan officers regarding auditor independence. Thus, the Mann-Whitney U tests were conducted so as to indicate whether there is a statistically significant difference in the perceptions of auditor independence between the two groups. The results of testing hypotheses of studies are discussed in this section

6.1. Provision of Non-audit Services

The findings presented in Table 2 reveal significant differences in the perceptions of external auditors and loan officers in most of the statements relating to provision of non-audit services. Six factors are included in this study. The loan officers group has higher mean ranks for five out of six statements in regard to the provision of non-audit services. Loan officers are more concerned about the independence of the external auditor when he/she provides nun audit services. Loan officers expect the auditor to have decreased ability to resist client pressure when nun-audit services are provided. Loan officers also believe that the Provision of non-audit services to audit clients will not enable the auditor to perform more efficient and effective audits (mean rank 86.9 in comparison with 69.84 for auditors). Furthermore, loan officers indicated that external auditors are likely to scarify his/her objectivity in order to retain the non-audit fees paid by the client. In addition, loan officers tend to prefer that audit firms should be totally banned from providing non-audit services (mean rank = 84), however external auditors disagree with them (mean rank = 66.97). Both loan officers and auditors agree that the independence of the auditor would be threatened if non audit services were provided by the same personnel involved in the audit. However, loan officers indicate that their confidence in the auditor's ability to remain independent would be affected by the provision of non-audit services to an existing audit client. The above discussion indicated that there are differences between auditors and loan officers in their perceptions of auditor independence in relation to the provision of non-audit services. The impact of the provision of non-audit services on auditor's independence is one of the significant factors that has been investigated extensively by prior research (Beattie et al. 1999; Haniffa & Hudaib, 2007). The results indicate statistically significant differences in the perceptions of loan officers and auditors regarding the provision of non-audit services. Based on the mean ranks, the most significant difference between the two respondent groups is related to statement 3 (when the auditor provides non-audit services to audit clients the auditor may have a decreased ability to resist client pressure". The least difference between the two groups is related to statement 5 (audit independence would be threatened if non- audit services were provided by the same personnel involved in the audit. Accordingly, hypothesis 1 is rejected. The provision of non-audit services by external auditors was perceived as an important threat to auditor independence. The findings are in line with several prior studies which provided evidence that independence is compromised by the provision of non-audit services by auditors as perceived by users (Bartlett, 1993; Beattie et al. 1999; Abu Bakar et al. 2005).

Table 2

Respondents' Perceptions of Auditor's Independence Regarding the provision of nun-audit services.

		Mean Rank		Mann-Whitney U Test	
#	Provision of nun-audit services to audit clients	Auditors (n = 79)	Loan officers (n = 76)	Mann-Whitney U	Significance
1	The Provision of nun-audit services to audit clients will not enable the auditor to perform more efficient and effective audit.	69.84	86.49	3357.000	0.011
2	When the auditor provides nun-audit services to audit clients the auditor may have a decreased ability to resist client pressure.	51.02	106.05	870.500	0.000
3	When the auditor provides nun-audit services to audit clients the auditor may sacrifice his/her objectivity in order to retain the non-audit fees paid by the client	53.86	103.09	1095.000	0.000
4	Audit firms should be totally banned from providing non-audit services.	66.97	89.46	2131.000	0.001
5	Audit independence would be threatened if non audit services were provided by the same personnel involved in the audit.	84.00	71.76	2528.000	0.066
6	When an auditor provides non-audit services to an existing audit client, my confidence in the auditor's ability to remain independent would be affected.	70.80	85.49	2433.000	0.031

6.2. Economic Dependence on A Single Audit Client

The results of the Mann-Whitney U tests also reveal a significant difference between the opinions of loan officers and auditors with respect to auditor's economic dependence on a single audit client (Table 3).

Table 3

Respondents' Perceptions of Auditor's Independence Regarding Auditor's economic dependence on a single audit client

		Mean Rank		Mann-Whitney U Test	
	Auditor's economic dependence on a single audit client	Auditors (n = 79)	Loan officers (n = 76)	Mann-Whitney U	Significance
1	Independence of the external auditor is affected if he/she is dependent upon a client for over 10% of his/ her income	67.93	88.47	2206.500	0.002
2	In making decisions regarding the company, the amount of audit fees the company pays to its auditor should be taken into consideration.	68.92	87.43	2285.000	0.008
3	If partner's income depends on the retention of a specific client, independence will be affected	54.56	102.37	1150.000	0.000
4	auditor's desire not to lose status by losing key client	56.37	100.48	1293.500	0.000

Four factors related to auditor's economic dependence on a client are included in this section. The mean ranks for loan officers were higher than those for auditors for all statements suggesting that loan officers were more concerned about the threat of auditor's economic dependence on a single audit client than external auditors. The results further showed that loan officers seem more worried about the threat that their credit decisions would be affected if they perceived the external auditor to be financially dependent upon the client. Loan officers also believe that auditor independence will be affected if the audit firm depends on the retention of a specific client (mean rank = 102.37 in comparison with 54.56 mean rank for auditors). Furthermore, loan officers expect the auditor to be unwilling to lose status by losing key clients (mean rank = 56.37 while auditor's mean rank = 100.48). The most significant difference between the auditors and loan officers in this section is in the two respondent's groups perceptions of statement 3 (If partner's income depends on the retention of a specific client, independence will be affected). The least difference is in respondent's perceptions of statement 2 (In making decisions regarding the company, the amount of audit fees the company pays to its auditor should be taken into consideration). Based on this result, hypothesis 2 is rejected. The result is consistent with Firth (1980) and Gul and Tsui (1992) who provided evidence that the significant size of audit fees is an important factor that impairs auditor's independence as perceived by bankers. Moreover, Beattie et al. (1999) argued that auditor's economic dependence on a single client is one of the threatening factors of independence.

6.3. Long audit tenure

With respect to the relationship between long audit tenure and auditor independence, the results of the Mann-Whitney U tests displayed in Table 4 revealed that there is significant difference between the opinions of loan officers and auditors. Three statements related to long audit tenure are included in this section. The mean ranks for loan officers were higher than mean ranks for auditors for the three statements. The results indicate that loan officers perceive auditor independence to be impaired due to the long relationship between an auditor and a client. The length of the relationship between the company and its auditor is perceived to be more significant in making decisions regarding the company from loan officers' point of view. In addition, the implementation of the rotation of the audit partner is perceived by loan officers to be a more important factor that enhances auditor's independence in comparison with auditors. Accordingly, hypothesis 3 is rejected. This is in line with the results of (Mautz & Sharaf 1961; Shockley 1981; Gates et al., 2007) who pointed out that a long-term relationship between auditor and client may cause auditors to get too close to the audit clients. In addition, the findings were consistent with Beattie et al. (1999), who stated that users were likely to perceive more threats to auditor independence in comparison with auditors. Furthermore, Gul et al. (2007) argued that long audit tenure could result in familiarity between auditor and client that threatens independence.

Table 4

Respondents' Perceptions of Auditor's Independence Regarding Long Audit Tenure

		Mean Rank		Mann-Whitney U Test	
#	Long audit tenure	Auditors (n = 79)	Loan officers (n = 76)	Mann-Whitney U	Significance
1	Long relationship between an auditor and a client is a threat of auditor independence.	49.39	107.74	742.000	0.000
2	In making significant decisions regarding the company, the length of the relationship between the company and its auditor should be taken into consideration.	49.66	107.46	763.000	0.000
3	The implementation of the rotation of audit partner will enhance auditor's independence.	51.83	105.20	934.500	0.000

6.4. The Presence of Audit Committee

The presence of an audit committee in auditee firms can improve the quality of information and enhance auditor's independence Sori et al. (2009). In this section, six statements related to the presence and functions of the audit committee are included (Table 5).

Table 5

Respondents' Perceptions of Auditor's Independence in regard with the presence of audit committee in the auditee firm

		Mean Rank		Mann-Whitney U Test	
	The presence of audit committee in the auditee firm	Auditors (n = 79)	Loan officers (n = 76)	Mann-Whitney U	Significance
1	The audit committee may safeguard auditor's independence if they are active (holding more than 3 meetings a year).	67.53	88.88	2175.000	0.002
2	The audit committee may safeguard auditor's independence if they are responsible for the appointment of the external auditors.	71.91	84.33	2521.000	0.067
3	The audit committee may safeguard auditor's independence if at least one of them has had experience in accounting.	72.91	83.29	2600.000	0.125
4	The audit committee may safeguard auditor's independence if they review and approve audit fees.	69.81	86.51	2355.000	0.017
5	The audit committee may safeguard auditor's independence if they control and monitor external auditor.	63.91	92.65	1888.500	0.000
6	The audit committee may safeguard auditor's independence if they provide compulsory audit committee report that describes their activities and actions taken during the year.	67.82	88.59	2197.500	0.002

The Mann-Whitney U tests show mixed results. There are no significant differences in the perceptions of auditors and loan officers about safeguarding auditor's independence if the audit committee is responsible for the appointment of the external auditors (statement 2). In addition, independence of an auditor is not likely to be affected if at least one of them has had experience in accounting as perceived by auditors and loan officers (statement 3), which is inconsistent with Sori et al., (2009). However, an active audit committee (holding more than 3 meetings a year) is considered an important factor that influences auditor independence, and the results revealed differences in perceptions of auditors and loan officers (statement 1). This result is consistent with Sori et al., (2009) which provided evidence that more meetings held by the audit committee is expected to ensure good financial reporting of the client. The results also indicated that there are significant differences in the opinions of loan officers and auditors in regard with safeguarding auditor's independence if the audit committee: review and approve audit fees (statement 4), control and monitor external auditor (statement 5) and provide compulsory audit committee report that describes their activities and actions taken during the year (statement 6). Hypothesis 5 is rejected as the results reveal significant differences between auditors and loan officers for most of the statements. The findings highlight the significance of the presence and active work of the audit committee for maintaining auditor's independence and comes in line with Beattie et al. (2013), Abu Bakar et al., (2005) and Alleyne et al. (2006).

6.5. Acceptance of Significant Gifts from the Client

Acceptance of significant gifts from the client is found to be an important factor that may impair independence of the external auditor. The findings show significant differences between loan officers and auditors in relation to acceptance of significant gifts from the client. These results are consistent with Pany and Reckars (1980) who pointed out that gifts and discount acceptance by the auditor of even a small amount significantly influences users' perceptions of auditor independence. Thus, acceptance of a gift from the client is a major factor that could cause conflict of interest and impair auditor's independence. The IFAC's Code of Ethics emphasized this matter and stated that accepting gifts or hospitality from a client may create self-interest and familiarity that may impair the independence of the auditor (IFAC, 2010). In the same context, Du (2017) indicated that some audit clients compromise auditor independence and establish bonding relations with their auditors through hospitality.

Table 6
Respondents' Perceptions of Auditor's Independence in regard Acceptance of Significant Gifts from the Client

	Mean Rank		Mann-Whitney U Test	
Auditor's acceptance of significant gifts from the client	Auditors (n = 79)	Loan officers (n = 76)	Mann-Whitney U	Significance
Acceptance of significant gifts from the client company affects independence of the external auditor	68.83	87.53	2277.500	0.006

7. Conclusions and Limitations

This manuscript examines the perceptions of loan officers and external auditors in Palestine, on several issues related to auditor independence. To estimate the findings, data was collected using a questionnaire developed by the author based on prior empirical studies and additional questions were added to be suitable to the current study. Respondents were asked to indicate the extent to which each of the following issues affected auditor independence: 1) provision of non-audit services to audit clients, (2) auditor's economic dependence on a single audit client, (3) long audit tenure, (4) the presence of audit committee in the auditee firm, and (5) auditor's acceptance of significant gifts from the client. The results indicated significant differences in the perceptions of external auditors and loan officers in most of the statements relating to the provision of non-audit services. Moreover, significant differences between the opinions of loan officers and auditors with respect to the auditor's economic dependence on a single audit client. Loan officers seem more worried about the threat that their credit decisions would be affected if they perceived the external auditor to be financially dependent upon the client. The findings also show that loan officers are more likely to perceive auditor independence to be impaired due to the long relationship between an auditor and a client. The results revealed mixed results about the effect of presence of active audit committee on independence of the external auditors. Acceptance of significant gifts from the client was considered an important factor that may influence auditor independence by loan officers and external auditor and thus significant differences between the two respondent groups were found in relation to acceptance of significant gifts from the client.

The findings of the study increase awareness of auditors and different users of financial statements on significant threatening and enhancing factors of auditor's independence in Palestine. Furthermore, the study can be useful to policy makers and professional auditing bodies in Palestine (Board of Auditing Profession and Palestinian Association of Certified Public Accountants**)** on setting new regulations or strengthening existing ones to enforce auditor's independence in Palestine. This study has a number of limitations that need to be acknowledged. First, the data instrument of the study is a survey questionnaire. This method of data collection may be subject to certain bias related to respondent representativeness and different interpretations of the questions by respondents' groups. Second, the study investigated the perception of auditor's independence of two groups (auditors and loan officers). Other financial statements users such as management, investors, and academics are not included in the present study. Third, the study examined five main issues of auditor's independence. Further future research is needed to investigate perceptions of auditor's independent of wider groups and consider other factors such as auditor/client size, audit firm competition and audit risk.

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