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Auditor Independence and its Impact on Financial Statements Audit (Evidence from Oman)

Mahmoud Manayseh

*Assistant Professor in Accounting, Department of Business Administration
Sur University College, Sur, Sultanate of Oman*

D.C. Stalin

*Assistant Professor in Accounting, Department of Business Administration
Sur University College, Sur, Sultanate of Oman*

 <https://orcid.org/0000-0003-3221-0937>

Abstract

Defrauding and error discovering by external auditor influence his relationship with his clients of professional auditing, a financial interest that auditor received it affect on the credibility of auditing and the relationships between the practices associated with the audit and the rules of professional conduct standards factors and changing the external auditor of professional auditing in Sultanate of Oman are investigated analyzed and to know the aspects related to change the External Auditor and its impact on the principle of independence, an issue of stakeholders interest in the companies under review.

In the framework of the keenness of financial and administrative control of Oman to keep up with development in the professional work and the adoption of global best practices in audit work so as achieve efficiency and effectiveness in business and goals accomplished device, the study results after the issuance of the report shows the negligence of the references in the performance of his professional duties of professional auditing in Sultanate of Oman, the associated application with a review of the professional rules and standards of behavior affect change in the external auditor and also the quality associated with checking the extent of the auditor's commitment to auditing standards process of professional auditing in Sultanate of Oman.

Keywords: Audit, Independence of the auditor, Financial statements and Financial statements audit.

Introduction

In recent years demonstrated the phenomenon of the steady increase in cases of changing auditors, including may raise a lot of doubts about the question of impartiality and independence of the auditor. This phenomenon has raised a lot of allegations that the auditor's report has become a commodity bought and sold and that the companies have become to get a clean report empty, which form Shop for any substantive reservations to the researchers, government, and professional organizations, - analysis. The interpretation of this phenomenon (Toothpick, 2008). It must be seen as neutral as the most important characteristics that must be available in the literature at all. The reason for this is the desire of the financial community to rely on auditors reports on the fairness of the financial statements to the expectations that these reports provide a point of view is biased (Arens et al. 2010) Intended to be independent ability to act impartially and objectively, for the auditor to always adhere to the independence of his thinking in all matters related to the mission entrusted to it. The independence of thinking is essentially a state of mind, as the auditor to

have his opinion through independence in thought and action, as he has to this independence is a necessity that will increase the credibility of accounting information which references show where his mind, especially as creditors and investors, government agencies and other relevant stakeholders of the accounting information to rely on the opinion of the auditor as an independent and impartial expert (Leila 2010). The financial ties that bind auditor with the firms which they audited its financial statement, also, to inform him of the things classified as confidential may raise doubts among the various parties, which don't recognize the importance of possession of that information and controls are placed on the use by the auditor based on impartiality and independence (Leila 2010).

The management of the facility enjoys the power to isolate the External Auditor Independent represents a threat to the independence and impartiality of the references, so that the management of isolating references if you do not meet the demands and follow the directions. The existence of economic interests with the management of the enterprise.

It is the accounting information users' confidence in the independence of the external auditor of the important things for the External Auditor. This confidence has been shaken by any evidence challenging this independence in the eyes of ordinary people, to reference independent must be independent completely, and so is the recognition of the independence of the auditor should be free from any obligations to the client that rethinking his position or be references to an interest in management or ownership (Leila 2010). In the framework of the keenness of financial and administrative control of Oman to keep up with development in the professional work and the adoption of global best practices in audit work so as achieve efficiency and effectiveness in business and goals accomplished device, the global competitiveness of the year 2013-2014 showed the sultanate on the international arrangement 19 in the index, the power of auditing and reporting standards for reporting report. Order the sultanate of Oman has seen in this indicator is a remarkable development over the past years, where you got the international arrangement 29 in 2011 compared to the order 37 in 2010, and in 2012 got the order 20, and replaced in

the international arrangement 19 in 2013. He added that the auditing profession in Oman in general and in the steady growth continuing, the report's finding is a clear indication of the remarkable progress step by Oman towards the development of performance and follow international best practice (Almahrooge 2016).

Statement of the Problem

The study focused on the problem of analyzing and studying the aspects related to change the External Auditor and the impact on the principle of independence, an issue of interest to stakeholders in the companies under review, which in turn sets necessary to set or change the references policies. Can be formulated the problem of the study's focus on professional auditing in the Sultanate of Oman is as follows: What is the effect of the rotation of the External Auditor on the principle of independence in the audit firms? The fork to the following questions: 1. what is the role of the presence of the Audit Committee in support of changing the External Auditor and its impact on independence? 2. What are the implications of the existence of a period of calm in the change of the External Auditor and its impact on independence? 3. Did the existence of financial interests related to the need to change the External Auditor because of its impact on independence?

Significance of the Study

The importance of the study in the search, whether you are the continuity of the references in work for the same company, will affect the independence or no of professional auditing in the Sultanate of Oman. It came this study was to clarify the positive and negative aspects of the change of the External Auditor and demonstrate a direct impact on independence, which followed a series of important results for the benefit of the client and references alike, especially about confidence and credibility. The importance of this study is also in being willed to explore the views of auditors working in audit firms accounts. Thus, the study will contribute to the provision of guidance material and study the awareness of all workers in the field of auditing in the Sultanate of Oman and gulf region.

Purpose of the Study

The study aims to achieve the following objectives: study and analyze (1) the role of the Audit Committee in support of changing the External Auditor and its impact on independent professional auditing in the Sultanate of Oman. (2) Change in the External Auditor and its impact on independent professional auditing in the Sultanate of Oman. (3) The existence of financial interests related to the need to change the External Auditor and the impact on independent professional auditing in the Sultanate of Oman. (4) The implications of paying fees to change the External Auditor's independence process.

Research Questions

1. Are defrauding and error discovering by external auditors influence his relationship with his clients of professional auditing in the Sultanate of Oman?
2. Is financial information benefits that auditor receives affect on the credibility of auditing? And what are the factors that affect an independent auditor for professional auditing in the Sultanate of Oman?
3. Are there any relationships between the practices associated with the audit and the rules of professional conduct standards factors and changing the external auditor of professional auditing in the Sultanate of Oman?

Hypothesis

1. There is no relationship between the subsequent discovery of the error, fraud, and illegal acts after the issuance of the auditor's report and the neglect and negligence in the performance of his professional duties of profacinal auditing in the Sultanate of Oman.
2. There is no relationship between the salary received by the auditor that affect the credibility of the audit and the factors that affect the independence of the auditor of profacinal auditing in the Sultanate of Oman.
3. There is no relationship between the practices associated with the audit and the rules of professional conduct standards factors and changing the external auditor of profacinal auditing in the Sultanate of Oman.

Scope and Limitation of the Study

The growing interest in the independence of the external auditor in the light of the changes experienced by the communities and the audit profession a free governed by laws rules and standards and all companies get clean reports, and it caused a problem so this is due to the desire of the community to rely on auditors related reports of financial statements.

Literature Review

The audit independence and audit reports of the financial statements showed the importance of commitment in the principles, rules, regulations, and code of ethics before, during, and after the financial report approved, whether to the private or public sector.

The Council of the Institute of Chartered Accountants in England and Wales On June 12, 2002, agreed that auditors should regard provisions of European Commission Recommendations, "Statutory Auditors' Independence in the EU: A set of fundamental Principles," as a best practice to the extent that they cover circumstances not specifically addressed in the current statement 1.202: Integrity, Objectivity, and Independence. Statement 1.201 applies to members in practice in respect of audit and similar financial reporting roles. The EC Recommendation utilizes the same framework as Statement 1.201, that is, objectivity and independence should be ensured by assessing and documenting, for each engagement, the actual or perceived threats to independence through self-interest, self-review, familiarity, and intimidation. Where provisions in this guide refer to closely connected individuals, the definition of "closely connected" in paragraphs 7.2 to 7.5 of Statement 1.201 should be considered to extend to parents siblings and any dependants not already covered "(Institute of Chartered Accountants, 2016)," but the internal auditor independence framework by proposing and comparing the thesis of independence as a social construct and its antithesis as a myth. Extensive reviews of empirical research (Sourour 2015) allow us to evaluate the key levers of audit committees, and the conditions of effectiveness of these bodies. Independence of the internal auditor is described as essential to sit his

assessments. However, his position as an employee, with a subordination agreement with an employer, may affect his judgment. Such a conflict threatens the independence of the internal auditor through its programming independence, investigation, and reports. An “optimal” level of independence is built. An independent audit committee, accessible and competent, often contributes to the preservation of the independence of the internal auditor. The ambiguity of roles between assurance and consulting, not recognized as such by internal auditors, may impair independence.

The primary role of the audit committee of the board of directors is to oversee the financial reporting process of the firm Lynch and Williams, (2012). “Responsibilities of the audit committee include hiring, Compensating, evaluating, and overseeing the firm’s external auditors reviewing the firm’s audit process, internal controls, and financial statements supervising the internal audit function and resolving differences of opinions should they arise, between the firm and its external auditor. A considerable degree of independence of the audit committee from the company and its management is thought to be important so that the committee can conduct its responsibilities objectively.”

Toothpick (2008) Identified the factors influencing the change of the External Auditor Application on joint-stock companies, and the study showed factors affecting change the references and reflections resulting from the decision to change the references in addition to measurement and analysis of the relative importance of these factors, from two points of view managements and auditors. The phenomenon of the references has not received attention in developed countries like the United States of America, the United Kingdom, and Arab countries. Qutb (2008) indicated that the various aspects of the process of changing auditors, in order to reach the factors affecting change the references from the viewpoint of the reviewers themselves and from the customer’s perspective any companies under review, and the most important results of the study that there are many factors that auditors and Financial managers agreed that a correlation process to change the auditor, and the most important of these factors (from the reality of the arithmetic mean)

are the factors associated with the audit Office, which obtained the arithmetic average higher than four degrees”. Khaznadar (2007) in his study which is aimed to identify the duration of the effect of the mandatory change of external references in improving the quality of the review process and enhance the objectivity and independence of the application on the audit firms and public shareholding companies and have the study made a series of important results concerning the existence of a relationship between the application of the mandatory change of auditor and its impact on the professional specialization in the industry it belongs to the client and the fees and the premise of the continuity of the company and the opinion of the owners of joint stock companies and the quality of the review process and enhance the objectivity and independence. Lara In 2018 Deloitte audit survey Abrash. Chairman & CEO of Deloitte showed that “Today corporate leaders understand that investors seek information that goes beyond the traditional parameters of basic financial statements – information that can impact markets more profoundly than ever before. she focused on continuing to make investments in how we deliver audits to enhance quality and meet the evolving needs of the capital markets”. Zhang (2007) investigated the relation between audit committee quality, auditor independence, and the disclosure of internal control weaknesses after the enactment of the Sarbanes-Oxley Act. We begin with a sample of firms with internal control weaknesses and, based on industry, size, and performance, match these firms to a sample of control firms without internal control weaknesses. Our conditional log analyses indicates that a relation exists between audit committee qualities, auditor independence, and internal control weaknesses. Firms are more likely to be identified with an internal control weakness, if their audit committees have less financial expertise or, more specifically, have less accounting financial expertise and non-accounting financial expertise. They are also more likely to be identified with an internal control weakness if their auditors are more independent. Also, firms with recent auditor changes are more likely to have internal control weaknesses. Kong (2006) I reviewed literature related to auditor independence and audit quality. The review is

structured based on the four main threats to auditor independence, namely client importance, non-audit services, auditor tenure, and client's affiliation with CPA firms. For each of the threats, we discuss findings related to the incentives, perception, and behavior of the auditor and the client, the effects of each threat on the actual and perceived quality of audit and financial reports. We conclude that inconclusive evidence, together with recent changes in the auditing profession, provides opportunities for further studies on auditor independence and audit quality issues. Boynton & Johnson (2006) explained in his paper that the independent auditor must audit (provide reasonable assurance about) management's assertions regarding the system of internal control over financial reporting. Under Sarbanes-Oxley, an independent auditor will audit both the financial statement audits and management's assertions regarding compliance with criteria about the adequacy of internal control over financial reporting. "Examples of scandals in auditing profession (Duane et al. 2004)". Recent accounting scandals and perceived audit failures have resulted in excessive criticism of the accounting and auditing professions. The financial press has expressed disdain at the presumably substandard work that was completed on audit clients, ostensibly at the expense of the public good. The research Specifically, analyzed the effects that the magnitude and the relative degree of non-audit services have on the bond rating process. Regression results indicate that the amount of non-audit services provided by a firm's external auditors is negatively associated with that client's bond rating. However, results of classification accuracy analyses fail to demonstrate any improvement in performance as a consequence of adding nonaudit fees to a benchmark prediction model, indicating no economic effect on the actual bond ratings. These results afford insights concerning bond rating analysts' perceptions of auditor independence and provide empirical evidence regarding the role that audit and non-audit service fees play in establishing a firm's bond rating" (Zhang, 2003). Independence in Appearance and Fact: An Experimental Investigation, Nicholas Dopuch, Ronald R. King, and Rachel Schwartz use experimental markets to investigate the impact of the SEC's requirement of

disclosure of certain information about non-audit services provided by auditors on investors' decisions. The study has contributed to the literature on auditors' independence by providing evidence that disclosure of information that is inconsistent with auditors' independence is detrimental to market efficiency and equity in wealth distribution. The results may imply that the disclosure of information about the non-audit services provided by auditors is not beneficial to investors." Appear to be objective to those relying on the results of the audit. The audit of companies in the United Kingdom can be performed only by auditors registered with a supervisory body. The purpose of registration is to ensure that audits are performed by persons who are properly supervised and appropriately qualified. The criteria for registration of auditors have been referred to earlier in the chapter. Carcillo, Neal (2003) "One important role of audit committees is to protect external auditors from dismissal following the issuance of an unfavorable report. We examine auditor dismissals following new going-concern reports that Big 6 firms issued between 1988 and 1999. Our findings suggest that audit committees with greater independence, greater governance expertise, and lower stockholdings are more effective in shielding auditors from dismissal after the issuance of new going-concern reports. Also, we find that the relation between audit committee independence and auditor protection from dismissal has grown stronger over time. Finally, independent audit committee members experience a significant increase in turnover rate after auditor dismissals. These findings, coupled with those from Carcello and Neal (2000), suggest that when affiliated directors dominate the audit committee, management often can (1) pressure its auditor to issue an unmodified report despite going-concern issues, and (2) dismiss its auditor if the auditor refuses to issue an unmodified report." Klein, April (2002), "provided empirical evidence that audit committee independence is associated with economic factors. I find that audit committee independence increases with board size and board independence and decreases with the firm's growth opportunities and for firms that report consecutive losses. In contrast, no relation is found between audit committee independence and creditors' demand for

accounting information. Although the analyses are based on the date from 1991 to 1993. These results have implications for NYSE and NASDAQ listing requirements for the audit committee adopted in December 1999. Specifically, the new requirements give firms the option of including non-outside directors on their audit committee if it is in the best interests of the firm to do so. Frankel et al. (2002) examined whether auditor fees are associated with earnings management and the market reaction to the disclosure of auditor fees. Using data collected from proxy statements, we present evidence that non-audit fees are positively associated with small earnings surprises and the magnitude of discretionary accruals. In contrast, audit fees are negatively associated with these earnings management indicators. We also find evidence of a negative association between nonaudit fees and share values on the date the fees were disclosed, although the effect is small in economic terms. Palmrose & Saul (2001) the SEC's rulemaking on auditor independence should be viewed as a failure of the regulatory process. Before a regulatory agency restructures a profession or a business, it should possess solid, convincing evidence of abuse or market failure. In the absence of strong empirical evidence, accounting firms should be free to establish their models for organizing themselves, and those models should be allowed to compete in the marketplace. The perception of a conflict is not sufficient to justify the imposition of a new business model through a regulatory rule. Because the evidence to justify a new independence rule was rather weak, the SEC resorted to questionable tactics to achieve its ends. The commission's proposal was issued at a time when some firms were considering selling or spinning off their consulting operations as the bull market in early 2000 encouraged firm management to seek ways to monetize their investments in consulting. The timing of the SEC's failed attempt to divest consulting from auditing and its proposed rule on non-audit services could not help but raise the question of whether the proposal might give some firms a competitive advantage over others or soften their opposition to the proposal.

Moreover, the firms that had decided to retain their consulting businesses found themselves adversely affected by the SEC's proposal.”

Methodology

The methodology used for collecting data and analyzing the data will be discussed. Collecting demographic information of the respondents and the second section would focus on collecting the information pertaining research title.

The study sample technique as the respondents belonged to different demographical characteristics such as age, Qualification, Major, Years of Experience, etc. The study uses a structured questionnaire to collect primary data from the target respondents selected for the study. The questionnaire consists of two major sections as the first one would focus on collecting demographic information of the respondents, and the second section would focus on collecting the information pertaining research title. The questionnaire distributed on a sample of the study, which is consists of 48 auditors in accounting firms in Muscat, Oman.

The number of respondents was 48 of the questionnaire and 0 missing of the questionnaire. 100% Of the respondents in these studies.

Collection Tools

The study used a structured questionnaire to collect primary data from the target respondents selected for the study. The questionnaire consists of two major sections as the first one would focus on collecting demographic information of the respondents, and the second section would focus on collecting the information pertaining research title.

Statistical Tools

The study intends to use basic to advanced Statistical tools and models specially developed for the study. The study would propose to use a simple percentile method, ranking method, mean value, etc. for useful gating insight into the study.

Data Analyze and Interpretation

Table 1: Descriptive statistics

	S	F	P	Overall
Count	49	49	49	49
Mean	2.1046	1.8010	1.6490	1.9010
Sample variance	0.2691	0.4472	0.2959	0.1442
Sample standard deviation	0.5188	0.6687	0.5440	0.3797
Minimum	1.375	1.125	1	1.48148
Maximum	4.25	4.375	3.6	3.62963
Range	2.875	3.25	2.6	2.14815
Standard error of the mean	0.0741	0.0955	0.0777	0.0542
	1.9221	1.6353	1.7645	2.5312
Kurtosis	6.1134	3.1881	3.1597	8.7123
Coefficient of variation (CV)	24.65%	37.13%	32.99%	19.97%

This table shows the mean value of H1 is 2.1046, H2 is 1.8010, and H3 is 1.6490 then H3 has the least value.

Table 2: Regression Analysis

	r ²	0.761	N	49	
	R	0.872	K	1	
	Std. Error	0.188	Dep. Var.	Overall	
ANOVA table					
Source	SS	Df	MS	F	p-value
Regression	5.2669	1	5.2669	149.73	3.22E-16
Residual	1.6532	47	0.0352		
Total	6.9201	48			

This table shows the correlation coefficient R² between a dependent variable and independent variable of H1 is .761.

Table 3

Regression output		Std. Error	t (df = 47)	p-value	Confidence interval	
Variables	Coefficients				95% lower	95% upper
Intercept	0.5571	0.1130	4.928	1.07E-05	0.3297	0.7845
S	0.6385	0.0522	12.237	3.22E-16	0.5336	0.7435

This table shows the coefficients between a dependent variable and independent variable of hypothesis one is .5571.

Table 4: Regression Analysis

	r ²	0.724	N	49	
	R	0.851	K	1	
	Std. Error	0.201	Dep. Var.	Overall	
ANOVA table					
Source	SS	Df	MS	F	p-value
Regression	5.0120	1	5.0120	123.46	9.59E-15
Residual	1.9081	47	0.0406		
Total	6.9201	48			

This table shows the correlation coefficient R² between a dependent variable and independent variable of H2 is .724.

Table 5

Regression output		Std. Error	t (df=47)	p-value	Confidence Interval	
Variables	Coefficients				95% lower	95% upper
Intercept	1.0307	0.0834	12.352	2.30E-16	0.8629	1.1986
F	0.4832	0.0435	11.111	9.59E-15	0.3957	0.5707

This table shows the coefficients between a dependent variable and independent variable of hypothesis two is .1.0307.

Table 6: Regression Analysis

	r ²	0.528	N	49	
	R	0.726	K	1	
	Std. Error	0.264	Dep. Var.	Overall	
ANOVA table					
Source	SS	Df	MS	F	p-value
Regression	3.6507	1	3.6507	52.48	3.49E-09
Residual	3.2694	47	0.0696		
Total	6.9201	48			

This table shows the correlation coefficient R² between a dependent variable and independent variable of H3 is .5.28.

Table 7

Regression output		Std. Error	t (df=47)	p-value	Confidence Interval	
Variables	Coefficients				95% lower	95% upper
Intercept	1.0650	0.1214	8.772	1.84E-11	0.8207	1.3092
P	0.5070	0.0700	7.244	3.49E-09	0.3662	0.6478

This table shows the coefficients between a dependent variable and independent variable of hypothesis three is 1.0650.

The study used some programming for analysis of the questionnaire, such as SPSS and Excel Mega statistics. As we mention our hypothesis in the negative sense, the respondents would have opted the disagree or strongly disagree with the questionnaire. Huns, we consider the relationship which has less R2 value has the highest impact factor.

- The less value of R2 is 0.528 for the third hypothesis, 0.724 for the second hypothesis, and 0.761 for the first hypothesis. And the less mean for this hypothesis is the third hypothesis. It has less value than the second and last first. It is 1.6490, 1.8010, 2.1046 respectively,
- And the same for sample variance of the Hypothesis3 has less value than two and last is one it is 0.2959, 0.4472, 0.2691, respectively, All standard error value shows the data are closes to the mean value.
- The sample standard deviation shows the data are constant.
- Skewness value shows that responses are two wards the strongly disagree. Thus, There is a

relationship between the practices associated with the audit and the rules of professional conduct standards factors and changing the external auditor. There is a relationship between the salary received by the auditor affect the credibility of the audit and the factors that affect the independence of the auditor. And there is a relationship between the subsequent discovery of the error, fraud and illegal acts after the issuance of the auditor's report and the neglect and negligence in the performance of his professional duties

Findings

Answering some serious questions are the fact audit independence. Auditor report on financial statements was able to answer that prefer external auditor to provide audit services next to administrative and advisory services provided, however, that the intention is to provide advice and does not contribute in making decisions as if the board of directors at this company, and have at the same time a member of the

auditor's auditor external version of the decisions of the board of directors.

The auditor may apply the accounting Standards, therefore, take into account some of which at least during his mission, so do not be remiss and dragged it from the consequences. During the past two decades many talks about the range of services provided by the auditor that, in the presence of requests by customers to expand the scope of these services, some authorities see that auditor independence, a genuine provide the external auditor administrative and advisory services is a threat while for the Ethics Committee of the complex profession of Certified Public Accountants that preferably the external auditor to provide audit services next to the administrative and consulting services provided.

In the framework of the keenness of financial and administrative control of Oman to keep up with development in the professional work and the adoption of global best practices in audit work so as achieve efficiency and effectiveness in business and goals accomplished device, the global competitiveness of the year 2013-2014 showed the sultanate on the international arrangement 19 in the index.

Recommendation

Through research and study results from the questionnaire, it shall be concluded that the subsequent discovery of the error, fraud, and illegal acts after the issuance of the report shows the negligence of the references in the performance of his professional duties of professional auditing in Sultanate of Oman. The salary received by the auditor affects the credibility of the audit, and also there are many factors that affect the independence of the auditor. And also, the associated application with a review of the professional rules and standards of behavior affects change in the external auditor and also the quality associated with checking the extent of the auditor's commitment to auditing standards process of professional auditing in the Sultanate of Oman.

Conclusion

The importance of this study, to clarify the positive and negative aspects of the change of the

External Auditor and demonstrate a direct impact on independence, which followed a series of important results for the benefit of the client and references alike, especially about confidence and credibility. Also, the importance of this study in being willed explores the views of auditors working in audit firms accounts. Thus, the study will contribute to the provision of guidance material and study the awareness of workers in the field of auditing.

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Author Details

Dr. Mahmoud Manayseh, Assistant Professor in Accounting, Department of Business Administration, Sur University College, Sur, Sultanate of Oman.

Dr. D.C. Stalin, Assistant Professor in Accounting, Department of Business Administration, Sur University College, Sur, Sultanate of Oman, **Email ID:** dcstn80@gmail.com.