

**ANALYSIS FACTORS THAT ENHANCE AUDITOR'S INDEPENDENCE.
CASE STUDY: AUDITING FIRMS IN HASS
PETROLEUM.**

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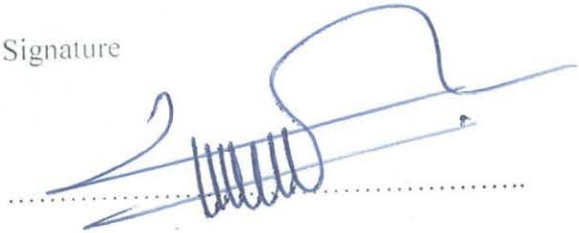
**ARESEARCH REPORT SUBMITTED TO SCHOOL OF BUSINESS AND
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DECLARATION

ADEN MOHAMED NOOR declare that this research report is my original work and has never been submitted to any university for any award. Where the work of others has been cited, acknowledgements have been made.

Signature



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DATE..... 1/11/2011

APPROVAL

This report has been moderated by the university supervisor and the student has submitted it for examination with my approval.

Sig.....

Mr. Henry Ochieno Barasa

DATE.....

DEDICATION

This book is dedicated to my dear parents, Mr. Mohamed Noor Gulled and Mrs. Habiba Ali Unshur and my entire family who have been of great support throughout my studies.

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I thank Allah the almighty for giving me all the necessary strengths, knowledge, wisdom, financial and moral ability to complete my research report.

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Figure 1: Conceptual framework

ABSTRACT

The study analyzed the factors that enhance auditor independence, a case study of auditing department in HASS petroleum. These factors include auditor's fees, tenure of the audit, size of the audit firms, audit committee, professional relationship, family relationship and gift and loans.

Data was collected using structured questionnaires and analyzed and presented using frequency tables and group bar graphs. The study reveals that there are those factors that compromised auditor's independence and they include: family relations, profession relationships gift and loans audit fee. The study also found out that most of the auditing firms emphasize on the importance of auditor's independence. The entire study has been summarized into five chapters as follows:

Chapter one: it addresses the general introduction to the study, background information, statement of the problem, study objectives, research questions, significance of the study, and limitation of the study and the definition of terms.

Chapter two: addresses the literature review and expand on the theoretical and conceptual framework and the past studies carried out by the scholars in the topic.

Chapter three: addresses the study design and methodology adopted, it gives the target population, sampling design, instruments for data collection procedures and analysis.

Chapter four: it addresses data analysis and presentation, the data collected has been presented both quantitatively and qualitatively. This has been followed by a discussion of the study results and final presentation of the study findings, their relationships with research questions.

Chapter five: this chapter gives the conclusions and further recommendation to be made in the study. The recommendations are based on the findings of the study.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE PROBLEM

HASS Petroleum has experienced a gradual growth as far as its auditing department is concerned. This is due to tremendous growth of business which has demanded the need for true and fair views of financial statements. Before they decentralized, there was no auditing department. However, after decentralization a steady growth has been witnessed by parties interested in HASS enterprises such as creditors, suppliers, shareholders, lenders

"HASS" petroleum Uganda limited is a utility company 100% privately owned. It deals in the sale of petroleum products. It is a multinational petroleum company and is now one of the most efficiently run petroleum dealers in the country. Its performance improvement has been characterized by rapid expansion of the customer based service due to highly motivated employees that provide good service delivery which has more than doubled in the last five years to the current level. (The HASS petroleum news letter, November 2009)

The company has a mission: 'open up the business world by improving Transport communication and customer satisfaction in the field of petroleum products of all types not limited to Petrol, Gasoline, Kerosene and lubricants of every description and general services through offering state of art professional integrated solutions'. The organization has been enabled by its long term strategic policies enshrined in its corporate plan and the performance contract with government. This is backed by the short-term strategies for example, the service and revenue enhancement programme- the stretch out programme, the employee motivation and rewarding programmes to ensure good performance While Customer care has been a key factor in the corporation. (News letter; 2008)

Auditing department establishment has been a major concern for a long time. In recent times, it has become more pronounced the collapse of Enron which resulted in the closure of Arthur Anderson one of the major international accounting firms (Vinten 2003).

Auditor's independence has been defined as the ability to resist client's pressure (Knapp, 1985). Similarly, independence Standard (ISB, 2000) define auditors independence as the freedom from these pressures and other factors that compromise or can reasonably be experienced to compromise an auditor ability to realize unbiased audit decision. Auditor's independence has been assessed based on two standards that is fact and appearance.

Independence in fact refers to the actual objectives state of relationship between auditing firms and their clients.

Independence in appearance refers to the subjective state of that relationship as perceived by clients and third partners as explained by Xvens et al (2006) and Whittington and Party (2004).

Financial statement users must believe that external auditors are free from management control or users will doubt the validity of auditor's representation. Although U.S based auditing firms claim they are independent of their corporate clients, research has demonstrated that many individuals and groups perceive the situation otherwise. Management of public owned corporations have a responsibility to periodically issue financial statements addressing the corporations, current positions and post operating performance. Since the users of financial report rarely if ever, have an opportunity to check on their accuracy, an external auditor is often retained to form and express an opinion on the fairness of the management's presentations.

The impairment or lack of auditor's independence is the main cause of corporate collapse and business scandals across the world, including the U.S.A case of environment. The important issue has been raised by the media. Media comments have demonstrated the auditor's independence as the main concerns, when talking about corporate scandals. This paper supply valuable inputs and feedback regarding auditor independence, so that these corporate scandals and organizations collapse may be minimized.

1.2 STATEMENT OF THE PROBLEM

Problems in auditing have been characterized by issues such as collapse of investment firms e.g. brokerage firms such as Moha stoke brokers as a result of poor record keeping and, failure to update records. Under performance of organizations i.e. low profits, inadequate accounting and internal control system also show a negative view of auditors. Poor investment decisions of shareholders due to failure of auditors to disclose the correct, relevant and complete information necessary for investors. Restriction of independence where auditors of company are in conflict with the directors of a company, audit fees where it is clear that auditor earn their fees paid by the Board of Directors leaving them with the power in the relationship. Also personal or family relationships where personal relative also provide services to their own firms leading to compromise of objectives as far as auditors independence is concerned.

1.3 PURPOSE OF THE STUDY

The purpose of the study is to analyze factors that enhance auditor's independence in financial statement that is establishing true and fair view.

1.4 SPECIFIC OBJECTIVES

- I. To determine the factors that promotes auditors independence.
- II. To find out the factors that compromise auditor's independence.
- III. To determine whether proper books of accounts are kept thus establishing true and fair view.

1.5 RESEARCH QUESTIONS.

- I. What are the factors promoting auditors' independence?
- II what are factors the compromise auditor's independence?
- III How should the proper books of accounts be kept?

1.6 SCOPE OF THE STUDY

The study was conducted in HASS petroleum Uganda LTD. It was confined to an analysis of factors that enhance the auditor's independence. These included factors that promote auditors' independence, proper keeping books of accounts and compromising auditor's independence. The study was conducted from AUG 2011 to OCT 2011.

1.7 SIGNIFICANCE OF THE STUDY.

It is hoped that the study of auditor's independence will make some contribution to existing knowledge in the reliability of auditor's independence. Those reports would not be credible and investors or creditors will have little confidence in them if auditors were not independence both in facts and appearance. They will help to develop a combination of well developed accounting standards and independent audits which has led to success of the auditing reports and also develop a means of avoiding threats to independence of auditors like self interest, self review,

advocacy, familiarity and intimidations. There also need to understand the concept of integrity, honesty and objectivity of financial statements among auditing firms. Those who will benefit will include customers, accountants, lenders, suppliers, investors, stakeholders and the government.

The study will also enable the customers, shareholders and creditors to determine credibility and performance of the organizations. The accountants work will be easier, the lenders will be in a position to determine the firms credibility and hence make a decision on whether or not to lend funds, suppliers can make a decision on whether to continue offering service to the firm or not and the government can easily determine the tax to charge.

1.8 LIMITATION OF THE STUDY.

In undertaking the study, a number of limitation were encountered which impeded effective answering of research questions. The most significant constraint was:

time. the short time schedule for the study was not comprehensive enough for the study to be carried out the firms which were approached, the financial managers were very busy with other schedules and this they delayed filling the questionnaires for several weeks.

Given the sensitive nature of the topic, the company top management felt that they were being investigated and therefore would be reluctant to fully give out the necessary information. Some felt that the study was to reveal the organizations weakness.

Other companies which were approached were reluctant to have the study done as were not sure how the information was to be used despite the assurance from the researcher that the information was for academic purposes.

CHAPTER TWO

LITERATURE REVIEW

2.1 CONCEPTUAL FRAMEWORK

Financial statement auditors are under siege from the regulators, investors and the government. Environment recent collapse, reporting fraud has resulted into damage of auditor's credibility. Past actions taken by the professionals have apparently been ineffective in responding to criticism of auditor's performance. New approaches are therefore needed to improve auditor's effectiveness in detecting material financial misstatement and to regain credibility lost due to recent financial scandals. Failure to respond to the significant challenges currently facing the auditing profession will further erode both value and quality of financial reporting.

Financial statement audits must be performed in accordance with the Generally Accepted Auditing Standards (GAAPs) changes in GAAPs have historically been made in relation to challenges and changes in the audit practice for example past criticism from regulators that auditors are not doing enough to uncover fraud which has resulted to issuance of standards No 32. Consideration of fraud in a framework for independence and new standards. Auditing standards setting have been influenced by basic theoretical concepts because a basic theory that is consistent with today's audit environment has not been identified.

Implications of a conceptual framework for standards setting, practice, research and education. This section identifies the implication of establishing a conceptual framework for auditing on standard setting and practice, research and education. The implication are not dependent on the specific conceptual framework presented in a paper, and are instead derived from the need to

establish a conceptual framework for auditing. Implication for standard setting practice. Auditing standard setting in the United States has generally been reactionary rather than proactive. New standard have been issued and existing standards modified in reacting to criticism of auditor's performance, mostly from the securities exchange commission following reports of auditors; apparently, ineffectiveness of detecting fraud or curbing widespread earnings management. For example, the auditing standards board current work to enhance the audit risk model was undertaken in reaction to recommendations from the panel on audit effectiveness, a group created in response to criticism of auditor effectiveness, a group in response criticism of audit effectiveness. The primary implication of the conceptual framework is that it would help organize extra auditing research to all types auditing services. Pany and Whittington (2001) identified promising areas recommendations to the auditing standards boards. These recommended research topics fit within the conceptual topics that are not derived from the panel's recommendations. The conceptual framework would therefore supplement Pany and the Whittington (2001) as an important source of research topic that could assist standards setters and practitioners.

Implication for education is interpreted here as including both Universities level education and continuing professional education. Accounting education has been procedural in nature focusing mostly on standards and rules with relatively little attention to basic theoretical concepts and the application of those concepts.

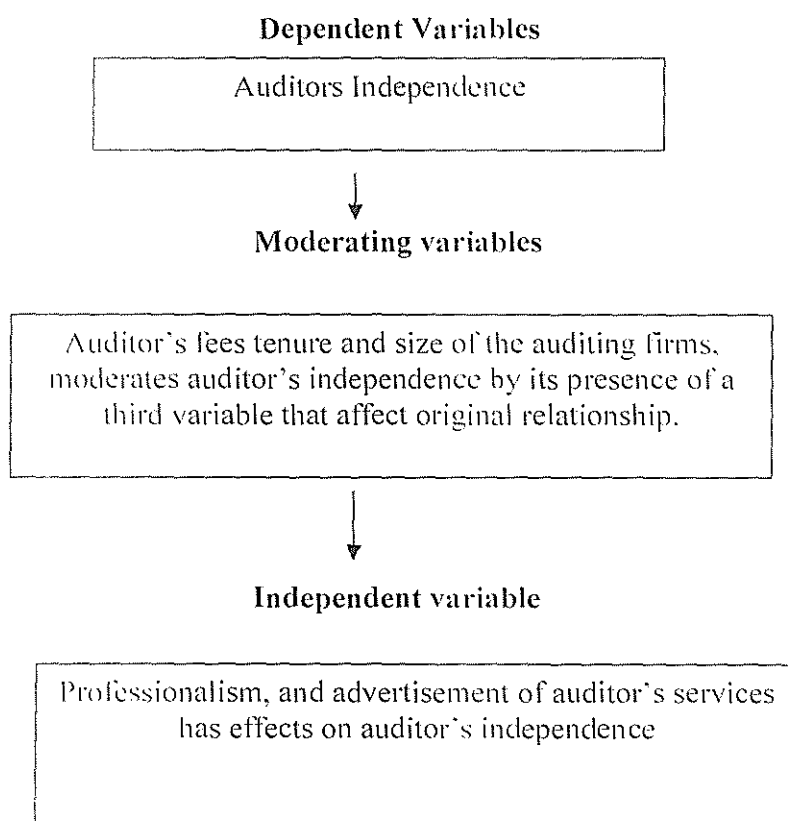
Financial accounting courses cover the basic statements, although the focus of these courses as reflected in text books is having students learn the generally accepted rules or standards. Despite repeated calls for change, accounting education remains largely procedure oriented with relatively little attention to theory. Change has been difficult in part because of the procedural.

Nature of most accounting textbooks as noted by current American accounting text books suffer from a perceived need to list every rule published by the financial auditing standards board (FASB) and from a lack of foundation. A conceptual framework for auditing will not magically improve auditing education, but would agree to the basic auditing concepts and relationships among these concepts. A conceptual framework would provide a context for helping students understand the nature auditing and can help them apply these basic concepts to different situations within a specific type of engagement and to different types of assurance engagements.

In conclusion the objective of this paper was to establish why a conceptual framework for auditing is needed and to present a proposed conceptual framework model that identifies primary auditing concepts and relationships among concepts. Using objectives and concepts to provide direction and structure to reporting standards and, practice enhances the credibility of financial accounting (Foster Johnson 2001) basing auditing standards and practice on a set fundamental concepts could similarly enhance the credibility of auditing services. This is specifically important at this time when auditors must rebuild and not just protect the profession's credibility. Failure to regain the credibility will continue to erode the value of financial statement audits and threatens opportunities to develop and offer new auditing services on the professional reputation

for integrity and competence. Recommendations made by the panel on auditing effectiveness are significantly affecting auditing standards board current agenda and will likely shape its agenda for the next several years (Pay and Whittington, 2001). The auditing standards board must respond in the short term to the panel's recommendations by changing standards in a way that will improve audit effectiveness in practice. However, a long term approach for improving auditing is also needed. The standards board (ASB) should therefore not miss the opportunity provided by the current crisis of confidence to at least begin work on a conceptual framework that will not only enhance the effectiveness of financial statements audit, but which will also provide guidance for all types of auditing services.

Conceptual Framework showing auditor's independence depending on several factor



2.2 HISTORICAL LITERATURE

The auditor's independence has been defined by the international auditing practice committee of the international federation of accounting on its I.A.G-3, September 1980, the auditor should be straight forward, honest and sincere in the approach to his professional work. Moizier (1991) in an economic sense, the term auditor independence. There is an expectation that the auditor will have reduced the chance of a successful negligence lawsuit to a level acceptable to the auditor. In the language of economics, the auditor will perform his work until the cost of undertaking. More work is equal to the benefit the auditor derives in terms of the production in the risk of a successful lawsuit being possible.

According to Gill Cossoral (1996) they emphasized that independence is the cornerstone of the auditing profession such that without independence, the auditor's opinion is suspect. In addition, third parties believe that without independence, there is no need for external auditing.

Most of the literature on auditor's independence suggests that, the credibility of financial statements depends on the perceived independence of the external auditors by the use of financial statements. Firth (1980), Lavin (1976) Dykaboorn and Sinnig (1982) for example, argues that if the auditor is not seen to be independent, users will have less confidence in the financial statement and the auditor's opinion on the company's financial statement will be of zero value. Thus the credibility of auditors depends not only on fact, but also must have importantly on the perception. Both actual as well as perceived auditor's independence are critical elements in the maintenance of public confidence in the auditing profession (Pany and Reekers, 1980). According to the previous studies conducted on factor affecting auditor's independence on

financial statement analysis, it has been found that the following factors influence auditor's independence among them are:

Size of the audit firms

It has been found that the audit firm size, the greater the auditor's independence and that prove that large firms are resistant to clients' pressure, thus maintaining higher audit independence.

Tenure of the audit firms

It has been found that the audits firms' size, the greater the auditor's independence and that prove that large firms are resistant to client's pressure, thus maintaining a higher audit independence.

Tenure of the audit firm serving the need of a given client

An audit firm's tenure, which is the length of time it has been filling the audit needs of a given client has been mentioned as having an influence on the risk of losing an auditor's independence.

Size of the audit fees received by audit firm

It has been found that the large size of the audit fees is associated with higher risk of losing auditor's independence. The accountant international study group (1976) recommended that auditor be restrained from accepting engagements for which the fees constitute 10% or more of auditor's total fees income.

Audit committee

There is much support to suggest a positive relationship between audit committee and auditor's independence. Basically the positive relationship between audit committee and auditor's

independence means that the existence of an audit committee will enhance auditor's independence. Teoh and Lim (1996), in their study found that the formation of the audit committee has a strong positive impact on enhancing auditor's independence. Similarly, Pattern and Nucekols (1970). Knapp(1985) and Lau and Ng (1994) found out that the existence of audit committee increases the likelihood of the firms offering quality services which is a reflection of an increased confidence in an auditor.

2.3 EMPIRICAL LITERATURE

Auditor's independence both in the fact and appearance have been long recognized as an important aspect of audit quality (De Angelo 1981). Audit quality has been defined as the perceived ability of an auditor to both discover a breach in the accounting system (objectivity) and withstand the clients pressure to selectively disclose discovered breach (objectivity) (De Angelo 198, Watt and Zimmerman 1986). If an auditor lacks independence, this increases the likelihood that they would perceived as less objective and therefore less likely to report a discovered breach. (Lowe and Pany 1995). There are two clients. (Simunic 1984, Dens et al 1993; Trantel et al 2002). On one hand, the AJCPA and the accounting profession have argued that the provision of non- audit services leads to increased knowledge of the clients and thus facilitate a higher quality audit (i.e. increases the likelihood of discovering a breach). Moreover, mitigating factor exists that discourage impairment of independence, infact including corporate governance mechanism, regulating oversight and audit policies and culture (Johnstone et al 2001). as well as market based incentive such as loss of reputation and investigation costs (Defond et al 2002).

A more negative view on auditors providing non-audit services to clients is that this relationship strengthens the economic bond between the auditor and the client, possibly reducing the independence and increasing the possibility that the auditor will report faithfully (Simunic 1984). Some recent evidence suggests that provision of non-audit services impairs the perception of auditor's independence and that investors include this perceived impairment in the pricing of the firm's equity (Frankel et al 2002, Hackenbrack and Elms 2002).

Previous research investigates whether non-audit impairs independence in fact. Ashbaugh et al (2002), Reynolds et al (2003) and Frankel et al (2002) find that non-audit fees are positively related to companies beating analyst's forecast. However, subsequent research points out weakness in Frankel et al (2002) and fails to replicate their results when using alternative research designs according to Ashbaugh et al (2002) and Reynolds et al (2003). Further two studies fail to find evidence that non-audit fees impair auditors' independence where independence is proxied by need to issue a modified audit opinion as argued by Dechow et al (2002) and Greiger and Raghunandan (2003)

Frankel et al (2000) Empirical archival studies examine how equity market participants react to how recent disclosure of auditor's fees. Several laboratory studies utilizing professional decision makers shows that clients' companies (Lowe and Pany, 1995, 1996, Swanger and Chowning 2001). Because independence is in fact typically unobservable users are forced to rely on subjective perception of auditor's independence (Lowe and Pany, Lowe et al, 1996). Early research investigating the effect of non-audit services on the appearance of independence has yielded mixed results, however some recent findings suggest that non-audit services may impair

perception of independence (Glezen and Miller 1985, Lowe and Pany 1995, 1996, Jenkins and Krawczyk 200, Frankel et al 2002, Raghunandan 2003).

Recent legislations (The Sarbanes-Oxley act of 2002) limit the type of non-audit services but not the actual dollar amount that may be performed by the auditor. The full impact of these legislation on practice will evolve over time. Although it addresses other non audit services are still permitted such that the issue of independence will still continue to be an issue.

This study focuses on factors that enhances auditors independence in financial statement analysis and it has been found out in previous studies that a board of directors with higher quality (namely, more independent, more diligent and more professional and experienced) can be expected to actively involve in governing the process of financial reporting, and more likely to reduce the likelihood of fraudulent report by the purchase of higher quality and service (Carcello 2000).

Abbott and Parker (2000) also show that when audit committee comprise solely independently directors and meet at least two times annually the firms will incline to hire industry specialist auditors to certify their financial statements. The extant literature shows that the independence of the audit committee will enhance probability of going concern reports issued for financially distress companies (Carcello and Neal 2000).

However several studies have different points of view. They do not suggest the purchase of non audit services would impair the auditor's independence or sway the quality of financial statements (Ashbaugh et al 2003; Raghunadan et al 2003).

In Uganda regulations, commissions and accounting bodies have recommended the establishment of audit committees as an important corporate. In 2002 the Uganda capital authority required all listed companies to establish audit committees. This study establishes the roles of audit committees in corporate governance: in this practice corporate units those of Western economies: how audit committees started in Uganda. A questionnaire survey completed by 29 companies (60%) show much similar studies in major economies. However, skills shortage and dominant shareholders or government may have affected the operation of audit committee. All the audit committee reported cordial relationship with the management, internal audit and the external auditors and were perceived to have improved the quality of financial reporting.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

The survey design was used in this study. The research on the problem was carried out using a survey which involved data collection using both interviews and questionnaires forms of survey to find out factors enhancing auditor's independence in performance of auditing work.

Survey was preferred because it helps to gather systematic and factual information necessary for decision making (Ogola 1998). In addition surveys were efficient ways of obtaining information about people's thoughts, opinions and feelings Zech Meister and Schangneisn. (1992). The questionnaire contained items necessary to pick auditors opinion regarding auditor's independence.

3.2 TARGET POPULATION

The research was conducted in HASS petroleum and the target population consisted of auditing department within the company. HASS petroleum was preferred because of the size of the area, time constrains and the presence of auditing department.

3.3 SAMPLING DESIGN

The research used a non-probability sampling design. The sampling frames were auditing departments in HASS petroleum. A purposive sample of about 30 auditing individuals in the department were selected at proportionate distribution. This is to ensure the sample selected will be similar as possible to number under study.

Table3. 1 Sampling Design

Size of the firm based on number of employees	Number of audit	Sample size
0-20	50	20
21-30	25	10
Total	75	30

The sample presents 40% of the number and is expected to provide data that will the number and objectives of the study on factors enhancing auditor's independence in financial statement analysis.

3.4 DATA COLLECTION

Data collection can be done through by the use of both primary and secondary methods of data collections. Primary data can be collected using methods such as interviews, questionnaires, observations, case study etc. when primary data was collected was very unique in that it is you who collects it for the research of your study and until you publish it no one else can have access to it. The primary data collected by either of the methods may be qualitative or quantitative in nature. In our case we used questionnaires as a method of collecting data in primary form.

Questionnaires were advantageous in that they cover a wide geographical area, no prior arrangement was needed, responded considered responses and they covered a large number of people or organization. Due to this we will use the structured questionnaires in collecting our data in reference to auditor's independence.

Secondary methods of data collection supplied both quantitative data and qualitative data. The secondary data included data that was collected by someone for a different purpose. It was obtained from library research, newspaper, magazines, internet etc. In our case of data collection both the primary and secondary methods of data collection were used for collecting the necessary data which will enable this research be successful.

3.5 DATA ANALYSIS TECHNIQUES.

The data was collected through primary and secondary forms of data collection will be processed, coded and analyzed to facilitate answering research questions and objectives. It will also make it easy during interpretation of data collected.

Therefore statistical tools (mean, mode, median and standard deviation) were used to analyze the data. This was done in relations to the questions in the questionnaires and their answers.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF FINDINGS.

4.0 Introduction

This chapter covers presentations of the findings, their analysis, interpretation and discussions as per the objectives or research questions.

4.1 General analysis

The research concentrated on primary data collected from the field by use of questionnaires. A total of 24 questionnaires were distributed to respondents in auditing firms within Kampala, Eastern and the head quarter. A response rate of 91.7% was obtained as 22 auditing individuals responded. The response was considered representative since the respondents were drawn from all the categories of auditing firms. The data was presented, analyzed and discussed by use of tables, figures and percentages as indicated below. Also the group bar graph was used to summaries all the factors.

4.2. Quotation of the firms.

The study was interested in establishing whether a firm was quoted in the stock exchange of Uganda. The available option provided were quoted and not quoted. The following responses were received as indicated in table 4.1

Table 4.1 showing the responses on quotation of firms

Responses	Frequency	Percentages
Quoted	15	68.18
Not quoted	7	31.82
Total	22	100

Source: field data

RESPONSE ON QUOTATION

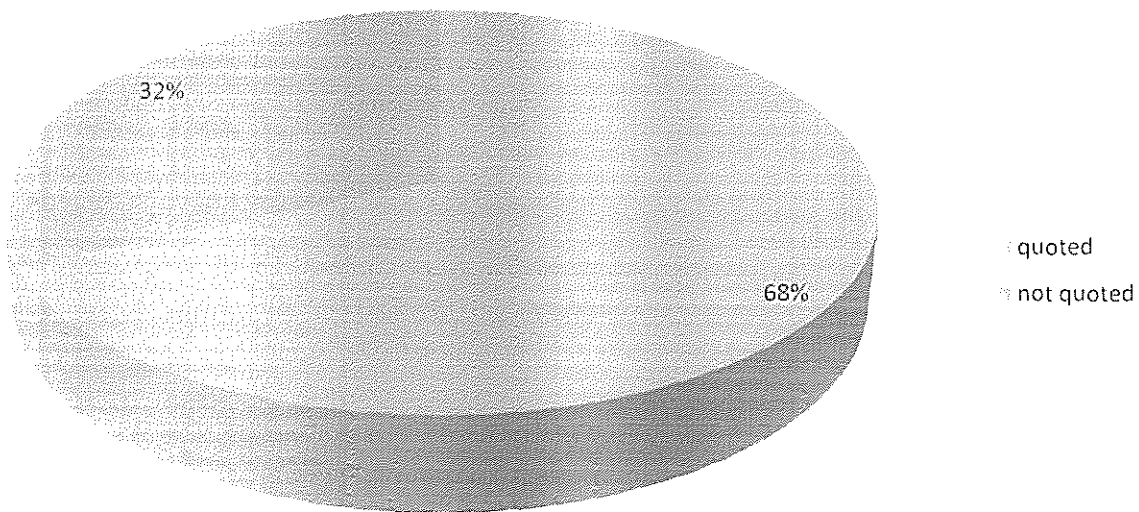


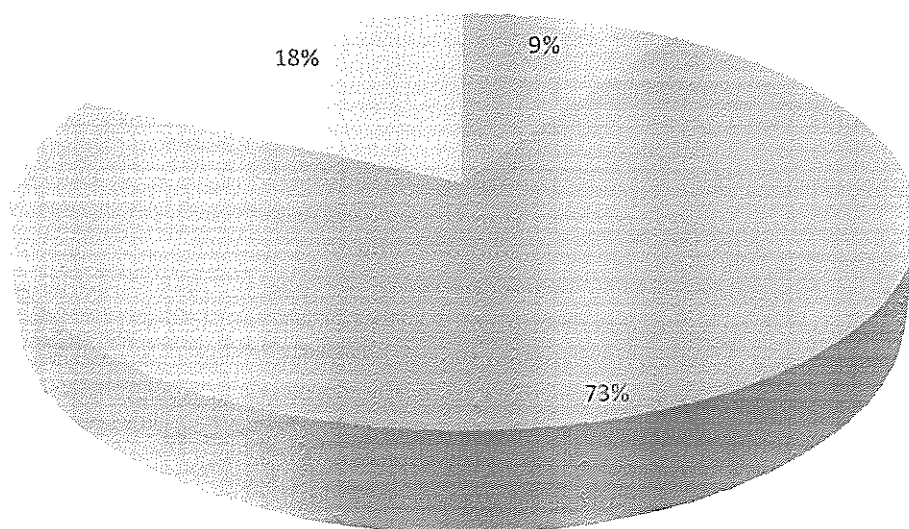
Table 4.2: Family relationship.

Level of effect	Frequency	percent	Valid percent	Cumulative percent
Low	2	9%	9%	9%
Moderate	16	73%	73%	82%
High	4	18%	18%	100%
Total	22	100%	100%	

Source: field data

percentage

■ low ■ moderate ■ high

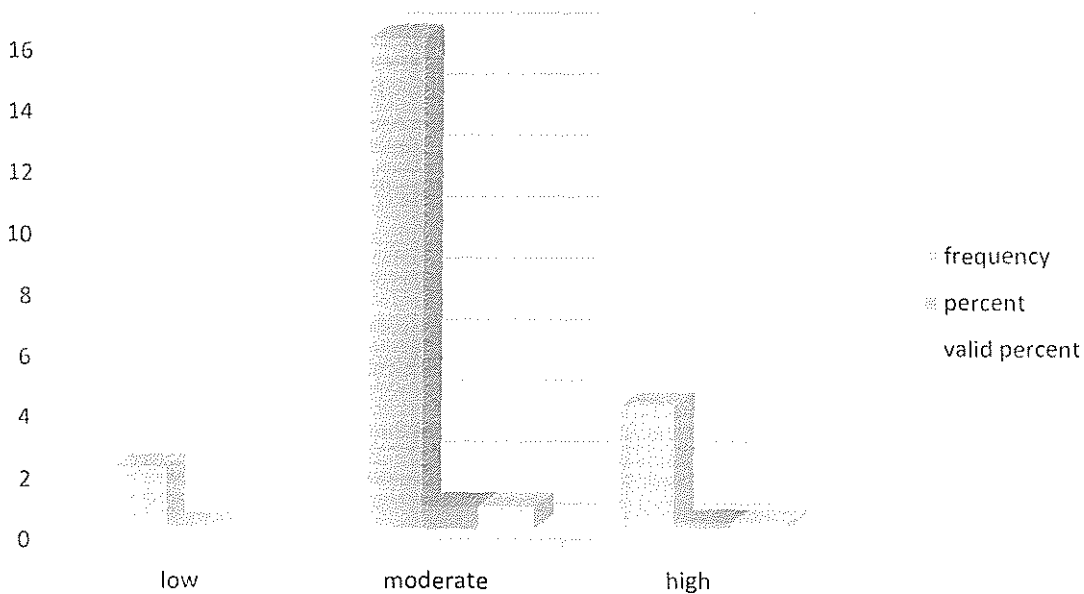


From the data, it was found out that family relationship has effect on auditor's independence since the level of effect was lowly rated at 4% by most respondents.

Table 4.3: Audit fees.

Level of effect	Frequency	percent	Valid percent	Cumulative percent
Low	2	9%	9%	9%
Moderate	16	73%	73%	83%
High	4	18%	18%	100%
Total	22	100%	100%	

Source: Field data



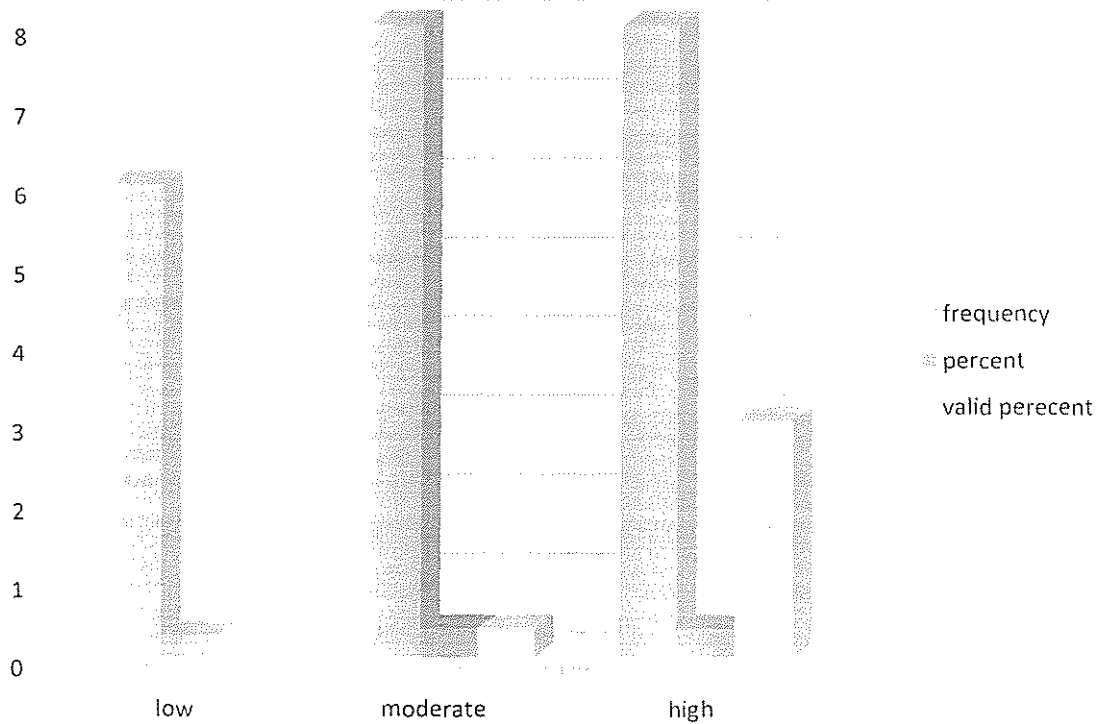
More than half (73%) of the respondents rated the factor, auditors fees moderate. This shows that the auditor's fees have significant effect on auditor's independence. This is because only 9% of the respondents rated the factor low. Moreover, 18% of the respondents rated the factor high.

This means that the management of every organization must ensure that they carefully consider the amount of audit fees given to auditors since it is very clear that it affect auditor independence.

Table 4.4: Gifts and loans

Level of effect	Frequency	percent	Valid percent	Cumulative percent
Low	6	28%	28%	28%
Moderate	8	36%	36%	64%
High	8	36%	36%	100%
Total	22	100%	100%	

Source: Field data



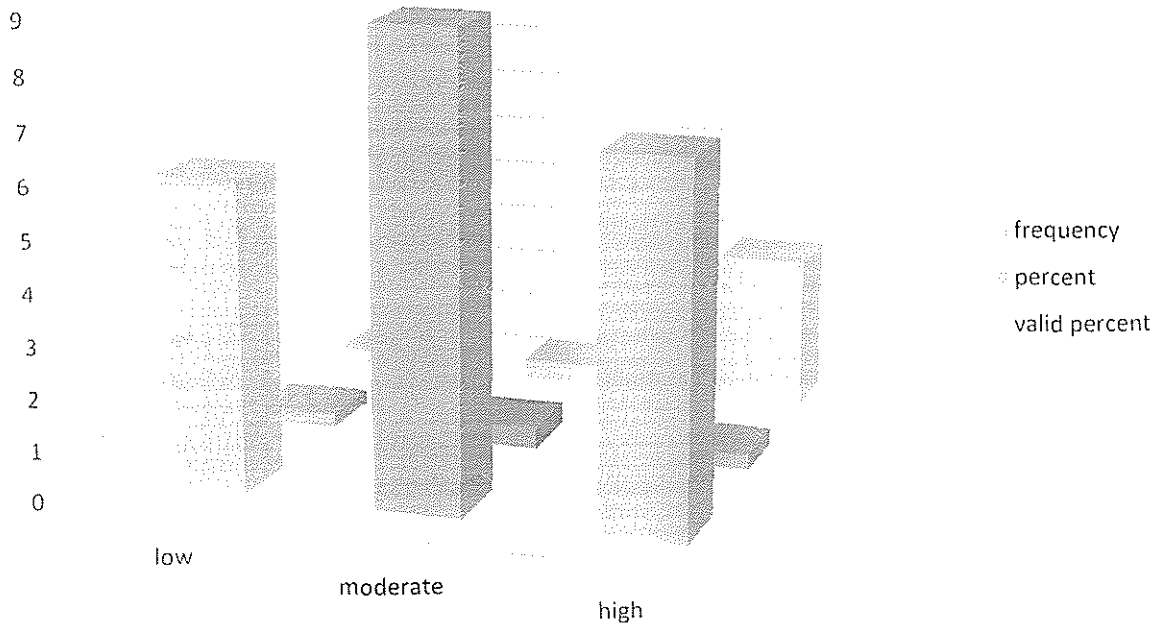
From figure 4.1 we can see that gifts and loans have the same impact on auditor's independence ie 36%. This indicates that the factor (gift and loan) does not low impact on auditor's independence. This does not mean that it should be ignored because it still comprises auditor's independence.

Table 4.5: Personal relationship.

Level of effect	Frequency	percent	Valid percent	Cumulative percent
Low	6	27%	27%	27%
Moderate	9	41%	41%	68%
High	7	32%	32%	100%
Total	22	100%	100%	

Source: Field study

personal relationship

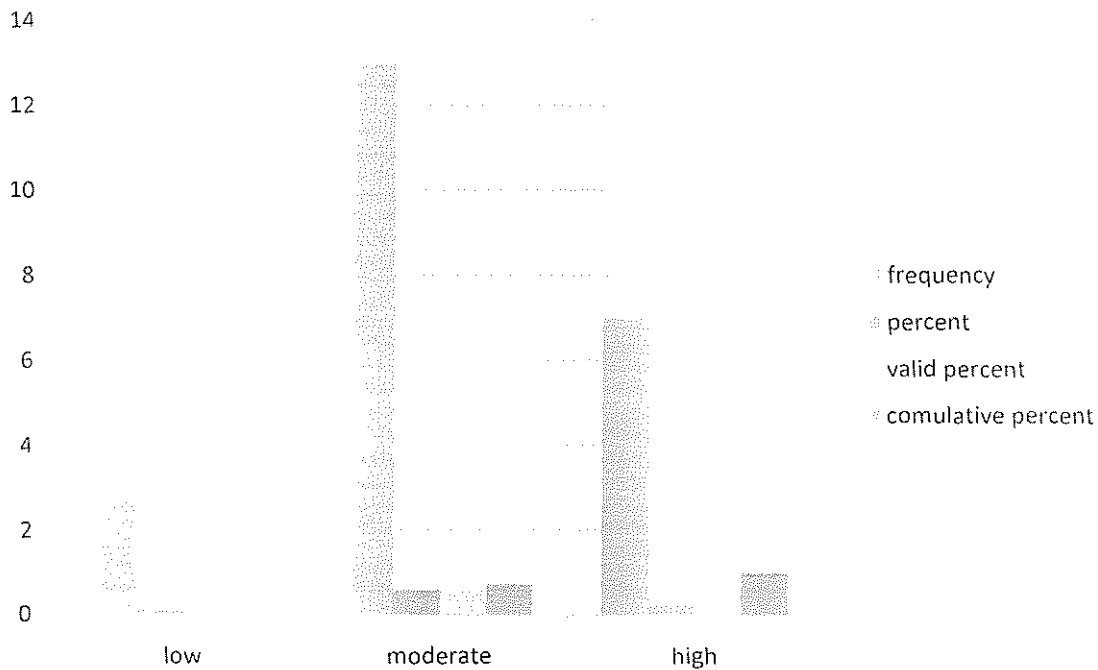


From table 4.5 it can be seen that personal relationship moderately affects auditors' independence since it was rated the highest in the table above i.e. 41%. This shows that personal relationship comprises auditors' independence. 27% of the respondents rated the factor low and 32% rated factor high.

Table 4.5: Professional relationship

Level of effect	Frequency	percent	Valid percent	Cumulative percent
Low	3	14%	14%	14%
Moderate	13	59%	59%	73%
High	7	27%	27%	100%
Total	22	100%	100%	

Source: Field study



In the table above it can be seen that professional relationship also has a significant effect on auditors' independence. This is because 59% of the correspondents rated it high and 14% of the respondents rated it low. This shows that there is moderate level of professional relationship among auditing firms.

From the data it was found that most of the auditing department in HASS value auditor's independence. Three quarter of the firms belong to ICPAK and CPA professional bodies. It was also found out that all firms do emphasize on auditor's independence. Their opinion on the present level of auditor's was fairly good, in fact the target of their performance mostly on the firms visited was 75% excellent and they event recommended that auditing firms cannot work without auditor's independence.

Based on the results of our study, it was found that there is a negative correlation between factors enhancing auditor's independence and factors comprising it. When the level of factors enhancing auditors' independence increases, the auditor's independence decreases and vice versa is true. This can be evidenced by strong contingent relationship between the dependent and independent variables.

From the above analysis, auditor's independence is a dependent variable is affected by the independent variables (factors that compromise auditor's independence). These factors includes: family relationships, audit fee, gift and loans, personal relationships and professional relationships.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

5.1 Summary.

5.1.1 Family Relationship

It was established that family relationship moderately enhances auditor's independence. Most auditing firms rated it high since, the clients are mostly involved in the work of appointing auditors to their family business without following the laid down regulations.

5.1.2 Auditing fees

It has a significant influence since it was rated high from the data collected. This is due to the fact that it is being determined by the clients and also additional services that the auditor might be required to perform. These services may include: taxation, filling tax forms, advisory duties and accounting systems.

5.1.3 Gifts and loans

Based on the data collected, it was found that gifts and loans do compromise auditor's independence. This is because: in most cases auditors are awarded loans from clients resulting to auditor's independence being compromised in their opinion on the presentation of the financial statements.

5.1.4 Professional relationships

The data collected stated that, the professional relationship is a factor enhancing auditor's independence. When the auditor is discharging his/her duties with objective, integrity, competence and the requirement of the company's Act is stated in the laws of Uganda.

5.1.5 Personal relationship.

It was realized that personal relationship moderately comprise the auditor's independence since, it was rated high by the correspondence. This can be evidenced by the auditors having some relationship with the management client.

5.2 Conclusion

Result has shown that auditor's independence is a key factor that should be taken into consideration by auditing department in HASS Petroleum. It has emerged that the family relationship, audit free gifts and professional relationships comprises auditor's independence in a great deal. Results show that there is a strong contingent relationship that exist between auditor's independence and the factors that compromise auditor's independence. In Hass Petroleum it was found that most of the auditing Department are concentrated in the central business district with the assistance of the administration letter, most of them complied with our request. It was also found that the rate of auditor's independence in the auditing firms rated first and that they do emphasize on auditor's independence.

5.3 Recommendation

Based on the data collected, it was recommended that auditors should be competent, qualified i.e. having attained all the requirements for them to become an auditor, and he! she should be a member of at least one of the professional bodies and also a Certified Public Accountant finalist. It was also recommended that the auditing firms should train their employees on the ethical codes and rules of conduct to govern them. The auditor should also adhere to the laid down auditing procedures when conducting their work. The professional bodies should impose