

**CAESAR'S WIFE MUST NOT JUST BE HONOURABLE, BUT MUST APPEAR TO BE SO: THE CASE OF AUDITOR INDEPENDENCE IN GREECE**

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**ABSTRACT:** *This study examines the perceptions of users of financial statements with regard to the level of auditor independence in Greece, and locates the factors affecting auditor independence in a country exhibiting characteristics including a high corruption index, a fluctuating economic, political and social setting, an inhospitable business environment, while research has been conducted in the midpoint of a prolonged economic crisis. A structured questionnaire was addressed to a random sample of four groups of users of financial statements. Main results indicated that auditor independence in Greece is delimited to a moderate level and that the factors mostly affecting auditor independence are related to "the economic dependence of the auditor on the auditee", "the provision of non-audit services by the auditor", "the financial interest of the auditor" and "the risks for the auditor arising from poor audit quality".*

**KEYWORDS:** auditor independence; independence in appearance; perceptions of auditor independence; factors affecting auditor independence; Greece.

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## **INTRODUCTION**

Greece is a developed country located in southern Europe and, more specifically, it is the southernmost country of the Balkan Peninsula, with an estimated 2011 population of 10,8 million people (Hellenic Statistical Authority, 2011). Greek economy is based on the service sector (79%) and industry (17%), with the most important economic industries being tourism and merchant shipping (Central Intelligence Agency [CIA], 2017).

Since 2001, Greece has become a full member of the Eurozone, despite the fact that, at the time, the country did not meet the standard economic criteria, as proved later on (Mavridis, 2018). It is noteworthy that, in 2004, Mr. George Alogoskoufis, as the then Finance Minister of Greece, confessed that the accession of Greece to the Eurozone was a result of creative accounting leading to the misrepresentation of significant economic data (Carassava, 2004). The year 2009 was another landmark year for the Greek economy, when the prolonged economic crisis, still afflicting the country, began. The country's weak economy, ineffective governance, excessive borrowing, tax evasion and corruption were the basic factors leading to the economic crisis.

Corruption occurring on all levels of the financial/political arena as well as tax evasion have been two main characteristics of the Greek economy for decades. It is representative that Greece is the 67 least corrupt nation out of 180 countries according to Transparency International and out of 175 countries according to Trading Economics, 2018. Also, among the European Union nations, Greece is the second most corrupt country after Bulgaria, with a Corruption Perceptions Index (CPI) score of 45 for the year 2018, despite the fact that the country's score has improved nine points since 2012 (Transparency International). Also, it is commonly accepted that tax evasion is usually highly correlated to corruption. Under these circumstances many political and economic scandals have erupted in Greece, i.e. the Bank of Crete scandal, known as Koskotas scandal (in the 1980s), the ETBA Finance scandal (in 1998), the Stock Market scandal (in 2000), the Dynamic Life scandal (in 2004), the Aspis Pronoia scandal (in 2009), the Proton Bank scandal (in 2011) and, finally, the Folli Follie scandal, being one of the most recent (in 2018).

In this context, questions arise concerning the role of auditors, the quality of audit work performed in each case and the degree to which the auditors managed to respond appropriately to audit requirements. Such questions would not arise if public trust towards the auditing profession was not undermined. According to Abdul Nasser et al. (2006), auditor independence is one of the most important factors in establishing public trust in audit work.

The purpose of the present paper is to investigate both the auditors' independence in Greece, according to the perceptions of users of financial statements, and the factors influencing auditor independence. Despite the fact that extensive research regarding auditor independence has been conducted, this is not the case with Greece. Of particular interest is the investigation of the perceptions of financial statements' users regarding auditor independence in a developed country exhibiting a high corruption index and experiencing a period of economic crisis. Moreover, the results of this research paper aim to assist in the formulation of suitable policies and the adoption of appropriate measures by means of redefining potential weaknesses, having as an ulterior aim the enhancement of the auditors' independence. In addition to that, the research results are likely to be useful to policy making bodies of countries with similar social, political, economic and cultural characteristics. Finally, it is noteworthy that, as Fearnley et al. (2005) mentioned, the perceptions concerning auditors' independence will determine the future of the auditing profession.

## **LITERATURE REVIEW**

The role of the external audit is particularly important since it ensures the credibility of the financial statements of the entity in question. The users of the financial statements themselves view audit as a guarantee as to the reliability of the information provided through financial statements (European Commission, 1998). Consequently, performing a quality audit, defined as the combined probability of first identifying and then mentioning any essential errors or omissions in the financial statements (DeAngelo, 1981; Palmrose, 1988; Hussain, 2009), is the key to the audit fulfilling its purpose in the best possible way. It is noted that this probability does not only depend on the

auditor's knowledge and skills, but on their independence as well, meaning the ability to express any opinion without succumbing to the personal interest of the auditee or to potential pressure exerted by them (Simunic, 1984; Elliott and Jacobson, 1998; Jubb, 2000; Vanstraelen, 2000; Richard, 2006; Mohamed and Habib, 2013). Thus, auditor independence is inextricably linked to the level of external audit quality (Duff, 2004). Therefore, when absent, the level of external audit quality is decreased and vice versa (Srinivasan et al., 2002; Pike, 2003; Richard, 2006; Baotham, 2009; Suseno, 2013).

Furthermore, auditor independence guarantees an objective audit and ensures that the auditor's work acquires reliability and leads to useful findings. In other words, when independence is lacking, the information provided in the auditee's financial statements becomes unreliable; the auditor's findings cease to be useful, and, therefore, the external audit is no longer of value as its purpose is not achieved. To ensure their independence, auditors maintain an independent working relationship with the auditee, or, in other words, they do not belong to their human resources. This is the exact premise the users of financial statements are based on, since this theory implies the preparation of an impartial and independent audit report. It could be said that the role of the auditor is in a sense similar to that of the judge who collects and evaluates evidence and, finally, attaches their opinion. Similarly, as the judge must remain independent, not advocating either party during a trial, and apply the law impartially based on evidence, in the same way, the auditor collects and evaluates evidence and expresses their opinion based on these ideals, maintaining their independence throughout the process. Of course, it should not be omitted that the independence of auditors is strictly provided for by the code of professional ethics.

### **Auditor Independence**

As already mentioned, the main characteristic of the audit and, at the same time, the main quality auditors should maintain is independence (McGrath et al., 2001; Barkes et al., 2002; Callaghan et al., 2009; Abu Bakar and Ahmad, 2009; Salehi et al., 2009). In this way, users of financial statements are convinced for the accuracy and correctness of the financial statements in question. Thus, users can confidently derive the necessary information from the financial statements, aiming at a more accurate decision-making process (Ghosh and Moon, 2004; Cameran et al., 2005; Adelaja, 2009).

Conversely, the lack of independence is the main cause of a series of corporate scandals and the collapse of large financial entities around the world (for example, the cases of Enron Corporation, NextCard Inc., WorldCom Inc. and Lehman Brothers Holdings Inc. in the US, HIH Insurance and One.Tel in Australia, and Parmalat SpA in Italy). In this respect, it was inevitable for auditor independence to remain in the foreground, related to many unresolved issues.

As argued, it is difficult to define the concept of auditor independence with absolute precision and clarity (Antle, 1984; Beattie et al. 1999; Fearnley et al., 2005). This is true because, on the one hand, the particular concept may vary over time (Gwilliam, 1987) and, on the other hand, it is dependent upon a number of individual factors related to the current situation (Wines, 2012). However, some definitions of auditor independence are presented below.

Firstly, considering the economic model, DeAngelo (1981) has defined independence as the conditional probability on the part of the auditor to reveal and report a discovered breach. Furthermore, independence is referred to as the ability of auditors to act with integrity and objectivity (McKinley et al., 1985). Moreover, Knapp (1985) defines it as the ability of auditors to resist clients', namely the auditees', pressures, highlighting the conflict of interest arising between the various users of financial statements. Finally, independence can be expressed as the unprejudiced attitude, and the unbiased judgment and decision-making process on the part of the auditor when carrying out their audit work (ISB, 2000; Gay and Simnett, 2003).

According to these definitions, it becomes clear that auditor independence is a confusing and hard-to-define concept, bearing different meanings for different people. Nevertheless, through the study of relevant literature it occurs that its definition involves at least two sides, that of independence in fact and that of independence in appearance (Mautz and Sharaf, 1961; Beattie et al., 1999; Craswell et al., 2002; Abu Bakar et al., 2005; Alleyene et al., 2006; Nelson, 2006). The first refers to the impartial position of the auditors, and the second to the perception of a third reasonable party/observer regarding the level of auditor independence (Beattie et al., 1999).

More specifically, independence in fact exists when the auditor is really able to act with objectivity, integrity and impartiality being unaffected by any conflict of interest (Wines, 2012). So it is noted that independence in fact is an objective concept. On the other hand, auditor independence should be accepted by the users of financial statements, who usually do not have a way to determine whether or not independence exists in fact. Considering that, it is concluded that auditor independence, except for being real, should also be evident (Axelson, 1963; Shockley, 1982). In other words, independence in appearance relates to public perceptions about the auditors' independence, and therefore, it is a subjective concept.

Thus, independence in fact and independence in appearance are likely to differ. So it is very important that the auditor should be independent both in fact and in appearance, as the one does not necessarily entail the other. Furthermore, since independence in fact is not measurable, the majority of the studies deal with the evaluation of independence in appearance, which is a measured and empirical concept (Dykhoom and Sinning, 1982; Beattie et al., 1999). In this regard, independence in appearance plays a special role in the audit quality (Harbies et al., 2009; Enofe et al., 2013).

It is noteworthy that it is possible for the expectations of users of financial statements not to coincide with their actual perceptions regarding the level of auditor independence in Greece. This incongruity could only be mitigated if the opinion of users of financial statements concerning auditor independence was improved, or, in other words, if auditor independence in appearance was enhanced. In this respect, the factors influencing independence in appearance should be investigated in correlation to the views of users. This process would lead to conclusions as to which points should be improved so as to enhance independence in appearance.

There are several studies with regard to the factors that may affect auditors' independence, and several factors affecting auditors' independence have been studied as well. Indicatively, the audit firm size, their reputation and ethics, the existence of an audit committee, the auditors' rotation and the disclosure of financial relationships are some of the factors that enhance auditors' independence (Beattie et al., 1999; Abu Bakar et al., 2005; Herath and Pradier, 2018). On the other hand, the provision of non-audit services, the economic dependence and the audit market competition are some of the factors that undermine auditors' independence (Beattie et al., 1999; Abu Bakar et al., 2005; Herath and Pradier, 2018).

## RESEARCH METHODOLOGY

### Research Questions and Research Hypotheses

Having studied literature relevant to auditor independence and the factors potentially affecting it, some basic questions arise. Taking into account the purposes of this study and the fact that only auditor independence in appearance can be measured based on the sample's perceptions, the research questions arising are the following:

Q1: Is there a relationship between the perceptions as to auditor independence and the occupation of the users of financial statements (shareholders/partners, bank loan officers, financial managers/accounting managers/accountants and auditors) in Greece?

Q2: Is there a relationship between the factors affecting auditor independence in appearance and the occupation of the users of financial statements (shareholders/partners, bank loan officers, financial managers/accounting managers/accountants and auditors) in Greece?

Q3: Is there a relationship between the significance of the factors affecting auditor independence in appearance and the occupation of the users of financial statements (shareholders/partners, bank loan officers, financial managers/accounting managers/accountants and auditors) in Greece?

Q4: Which of the ten factors examined in this research paper affect auditor independence in Greece?

Based on the research questions above, the following research hypotheses can be formulated (Table 1).

**Table 1:** Research Hypotheses.

Q1	Hypothesis-1	There is no difference between the perceptions as to auditor independence and the occupation of the users of financial statements in Greece.
Q2	Hypothesis-2	There is no difference between the factors affecting auditor independence in appearance and the occupation of the users of financial statements in Greece.
Q3	Hypothesis-3	There is no difference between the significance of the factors affecting auditor independence in appearance and the occupation of the users of financial statements in Greece.
Q4	Hypothesis-4	The factors found to be affecting auditor independence do not affect auditor independence in Greece.

## DATA AND METHODOLOGY

### *Research Tool*

Focusing on the research questions and in order to extract reliable results, a structured questionnaire was selected as a research tool, based on the questionnaire of Beattie et al. (1999). In particular, the questionnaire consists of three distinct parts: a questionnaire on the perceptions of respondents about the auditors' independence and its significance, a questionnaire on perceptions of respondents concerning the factors affecting auditors' independence, which constitutes the main part and is based on Beattie et al. (1999), and, finally, a questionnaire on the demographic data of the respondents. Moreover, a five-point Likert scale<sup>1</sup> was used in the ranking and assessment of questions. Also, a cover letter was provided together with the questionnaire explaining the purpose of the research and the concept of auditor independence, while also assuring the anonymity and the protection of respondents' personal data.

### *Sample and Data Collection*

Research is based on primary data collected, as described above, through a questionnaire, during the last quarter of 2014 - a crucial period that can be considered as the midpoint of the economic crisis in Greece. The questionnaire was addressed to a sample of four different respondent groups of users of financial statements in Greece, and, in particular, to shareholders/partners, to bank loan officers, to financial managers/accounting managers/accountants, and to auditors. These four groups were selected because each of them, from their own viewpoint, is interested in financial statements in order to be able to draw conclusions and make decisions. Moreover, according to Herath and Pradier (2018), most previous studies only examined the auditors' perspectives in order to arrive to results representing the views of all financial statements' users, which can be misleading. A representative sample of 120 participants was collected by means of a disproportionate stratified random sampling method. In order for each group to equally participate in the survey and in order for their views to have the same weight, it was decided that 30 completed questionnaires of each group should be collected.

### **Method of Data Analysis**

In order to obtain reliable and accurate results, data processing was carried out using the IMB SPSS Statistics Data Editor statistical program. In particular, statistical methods of descriptive statistics were used, like mean scores, in order to represent the perceptions corresponding to each statement and to each respondent group. A one-way ANOVA was conducted in order to examine the first three research questions. Finally, a Pearson correlation test and a multiple regression analysis were applied in order to examine the fourth research question.

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<sup>1</sup> 1 = greatly undermine, 2 = undermine, 3 = no impact, 4 = enhance, 5 = greatly enhance

## RESULTS AND DISCUSSION

In order to examine whether and to what extent research participants' demographics influence and eventually shape the perceptions of each group of users of financial statements, we collected their demographic characteristics (Table 2).

**Table 2:** Demographic characteristics of respondents.

		<b>Auditors</b>	<b>Financial managers/Accounting managers/Accountants</b>	<b>Bank loan Officers</b>	<b>Shareholders/Partners</b>	<b>Total</b>
<b>Gender</b>	<b>Male</b>	19	13	12	22	<b>66</b>
	<b>Female</b>	11	17	18	8	<b>54</b>
	<b>Total</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>120</b>
<b>Age</b>	<b>&lt;40</b>	12	13	14	5	<b>44</b>
	<b>40-55</b>	14	12	16	15	<b>57</b>
	<b>55&lt;</b>	4	5	0	10	<b>19</b>
	<b>Total</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>120</b>
<b>Education Level</b>	<b>High school</b>	0	0	2	11	<b>13</b>
	<b>BSc</b>	6	18	20	13	<b>57</b>
	<b>MSc</b>	24	12	8	6	<b>50</b>
	<b>PhD</b>	0	0	0	0	<b>0</b>
	<b>Total</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>120</b>
<b>Work Experience</b>	<b>&lt;5</b>	3	4	4	0	<b>11</b>
	<b>5-10</b>	7	8	10	3	<b>28</b>
	<b>11-15</b>	6	5	9	6	<b>26</b>
	<b>16-20</b>	5	3	7	8	<b>23</b>
	<b>20&lt;</b>	9	10	0	13	<b>32</b>
	<b>Total</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>120</b>

In addition, the research results revealed useful information on auditor independence in Greece, according to the perceptions of users of financial statements. Concerning the first part of the questionnaire, the results (Table 3) showed that according to the perceptions of users of financial statements, auditor independence is characterized as moderate (mean score 3,17). However, the importance of auditor independence in the overall audit quality is considered immensely high (mean score 4,73). It is noteworthy that the mean scores differ for the group of auditors and the group of non-auditors. Auditors' perceptions about auditor independence in appearance fall below the mean corresponding to the full sample, contrary to non-auditors' perceptions, which fall above the mean of the full sample. At the same time, auditors' perceptions concerning the importance of auditor independence in audit quality seem to be higher than the mean score corresponding to the full sample, contrary to non-auditors' perceptions, falling below the full sample mean. This difference mostly derives from the perceptions of the group of shareholders/partners.

So, it is clear that auditors should be absolutely independent. Nevertheless, there might be a gap between independence in appearance and expected independence. When this gap is considerable, then, as already mentioned in the literature review, problems arise, since audit findings cease to be reliable and, as a consequence, audit loses its usefulness and value. In the case analyzed in the present paper, this gap is not negligible ( $\text{gap} = \text{expected independence} - \text{independence in appearance} = 5,000 - 3,17 = 1,83$ ). Taking

into account the significance of auditor independence, the need to reduce this gap is deemed critical. The gap can only be reduced if the level of independence in appearance increases. In order to achieve that, we should focus on the factors affecting auditor independence.

**Table 3:** Mean scores of the responses of the first part of the questionnaire.

<b>Full sample</b>					
	N	Min	Max	Mean	Std. Deviation
Auditor independence in appearance	120	1	5	3,17	,920
Significance of auditor independence in audit quality	120	2	5	4,73	,514
<b>Auditors</b>					
	N	Min	Max	Mean	Std. Deviation
Auditor independence in appearance	30	1	4	2,90	,960
Significance of auditor independence in audit quality	30	3	5	4,93	,365
<b>Financial managers/Accounting managers/Accountants</b>					
	N	Min	Max	Mean	Std. Deviation
Auditor independence in appearance	30	2	4	3,03	,765
Significance of auditor independence in audit quality	30	4	5	4,73	,450
<b>Shareholders/Partners</b>					
	N	Min	Max	Mean	Std. Deviation
Auditor independence in appearance	30	1	5	3,53	,860
Significance of auditor independence in audit quality	30	2	5	4,57	,679
<b>Bank loan officers</b>					
	N	Min	Max	Mean	Std. Deviation
Auditor independence in appearance	30	1	4	3,20	,997
Significance of auditor independence in audit quality	30	4	5	4,70	,466
<b>Non-auditors</b>					
	N	Min	Max	Mean	Std. Deviation
Auditor independence in appearance	90	1	5	3,26	,894
Significance of auditor independence in audit quality	90	2	5	4,67	,540

Concerning the second part of the questionnaire, Table 4 presents the mean scores for the premises provided, potentially playing a role in auditor independence according to the opinions of financial statements' users. The first column shows the results concerning the full sample, while it was considered appropriate to present the results corresponding to auditors and non-auditors separately in the next columns. According to the results, "auditor's income depends on the retention of a specific audit client", "auditor's desire not to lose status by losing a key client", "management's de facto control of auditor's appointment" and "The client's offer of significant value gifts to the auditor." are the statements reflecting the sample's opinions on what mostly undermines auditors' independence in appearance. On the other hand, "the risk to auditor of disciplinary action by professional body", "compulsory rotation of the audit firm every five years", "risk of litigation against auditor", "risk of damage to auditor's reputation from public scandals" and "auditor does not provide non-audit services" are the statements reflecting the sample's opinions on what mostly enhances auditors' independence in appearance. Examining the mean scores corresponding to each group separately, there are no notable differences, except for the statements "auditee is characterized by a strong financial position, high reputation and size", "auditor acts as an individual firm" and "risk of litigation against auditor".



**Table 4:** Mean scores of the premises affecting auditor independence.

Premises	Full sample		Auditors		Non-auditors	
	Mean	Std. Deviation	Mean	Std. Deviation	Mean	Std. Deviation
The auditor's income depends on the retention of a specific audit client.	1,48	,710	1,33	,802	1,52	,674
A specific client is important for the auditor's portfolio.	1,93	,790	1,60	,855	2,03	,741
The fee of the auditor or audit firm is lower than the corresponding fees of other auditors.	2,48	,809	2,33	,844	2,52	,796
The competition among auditors is high.	2,24	,860	2,40	1,003	2,19	,806
The auditor's desire not to lose status by losing a key client.	1,63	,755	1,57	,817	1,66	,737
The auditor's fee for non-audit services is greater than their fee for audit services.	2,16	,926	2,47	1,137	2,06	,826
The auditor's fee for non-audit services is greater than 50% of their fee for audit services	2,41	,845	2,33	,844	2,43	,849
The auditor's fee for non-audit services is greater than 25% of their fee for audit services.	2,76	,778	2,67	,547	2,79	,841
The auditor does not provide non-audit services.	4,14	,910	4,10	1,296	4,16	,748
The audit firm is a small local firm.	2,20	,885	1,87	,860	2,31	,870
The audit firm is a large domestic (not international) firm.	3,30	,705	3,50	,777	3,23	,671
The audit firm is a leading international firm.	3,61	,833	3,83	,834	3,53	,824
The auditor acts as an individual firm.	2,12	1,070	1,73	1,048	2,24	1,053
The existence of unpaid audit fees.	2,43	,682	2,10	,845	2,53	,584
The client's offer of significant value gifts to the auditor.	1,76	,767	1,70	,915	1,78	,715
The management's de facto control of auditor's appointment.	1,72	,832	1,93	1,048	1,64	,739
The management's de facto control of auditor's remuneration.	1,93	,909	1,80	,961	1,97	,893
The auditee is characterized by a strong financial position, high reputation and size.	2,78	1,030	3,37	1,098	2,59	,935
The auditee is not characterized by a strong financial position, high reputation and size.	2,89	,632	2,63	,718	2,98	,580
The risk of damage to auditor's reputation from public scandals.	4,16	,733	4,30	,702	4,11	,741
The risk to auditor of disciplinary action by professional body.	4,53	,635	4,83	,379	4,42	,670
The risk of litigation against auditor.	4,32	,850	4,70	,596	4,19	,886
The compulsory rotation of auditors every five years.	3,86	,770	3,83	,874	3,87	,737
The compulsory rotation of the audit firm every five years.	4,33	,724	4,47	,681	4,28	,735
The auditor's annually reappointment..	2,98	1,141	3,13	1,074	2,92	1,163
The audit appointment is for a fixed number of years in place of annual appointment.	3,22	,989	3,03	1,129	3,28	,936
The disclosure of non-audit services provided by the auditor.	3,83	,678	3,93	,640	3,80	,690
The disclosure of non-audit fees paid to auditor.	3,77	,645	3,77	,626	3,77	,654
The disclosure of audit fees paid to auditor.	3,54	,777	3,60	,724	3,52	,796

In addition, each premise corresponds to one of the ten factors affecting auditors' independence according to Beattie et al. (1999). Table 5 contains the results reflecting the factors affecting auditors' independence and the significance of these factors, according to the respondents' opinion. The mean scores corresponding to each factor emerged from the scores of the related premises. Moreover, the table shows the mean

scores concerning the significance of the factors as evaluated by the respondents on a ten-point scale (1=Not important - 10=Absolutely important).

**Table 5:** Mean scores for the factors affecting auditor independence and their significance.

Premises	Factors	Factors' effect on auditor independence		Factors' significance in auditor independence	
		Mean	Std. Deviation	Mean	Std. Deviation
The auditor's income depends on the retention of a specific audit client. A specific client is important for the auditor's portfolio. The auditor's desire not to lose status by losing a key client.	<b>1. The economic dependence of the auditor on the auditee.</b>	1,6778	,63648	9,16	1,257
The auditor's fee for non-audit services is greater than their fee for audit services The competition among auditors is high.	<b>2. The level of competition within the external audit market.</b>	2,3583	,61557	6,97	1,729
The auditor's fee for non-audit services is higher than their fee for audit services. The auditor's fee for non-audit services is greater than 50% of their fee for audit services. The auditor's fee for non-audit services is greater than 25% of their fee for audit services. The auditor does not provide non-audit services.	<b>3. The provision of non-audit services by auditor.</b>	2,8667	,52853	7,13	1,544
The audit firm is a small local firm. The audit firm is a large domestic (not international) firm. The audit firm is a leading international firm. The auditor acts as an individual firm.	<b>4. The audit firm size.</b>	2,8063	,44257	5,41	1,863
The existence of unpaid audit fees. The client's offer of significant value gifts to the auditor..	<b>5. The financial interest of the auditor.</b>	2,0917	,58332	8,95	1,494
The management's de facto control of auditor's appointment. The management's de facto control of auditor's remuneration.	<b>6. The management's de facto control of auditor's appointment and remuneration.</b>	1,8208	,79862	8,33	1,712
The auditee is characterized by a strong financial position, high reputation and size. The auditee is not characterized by a strong financial position, high reputation and size.	<b>7. The particular characteristics of the auditee.</b>	2,8375	,44041	5,30	1,952
The risk of damage to auditor's reputation from public scandals. The risk to auditor of disciplinary action by professional body. The risk of litigation against auditor.	<b>8. The risks to auditor arising from poor audit quality.</b>	4,3333	,63216	7,82	2,165
The compulsory rotation of auditors every five years. The compulsory rotation of the audit firm every five years. The auditor's annually reappointment. The audit appointment is for a fixed number of years in place of annual appointment.	<b>9. The regulations concerning the auditor's appointment.</b>	3,5938	,48514	8,02	1,962
The disclosure of non-audit services provided by the auditor. The disclosure of non-audit fees paid to auditor. The disclosure of audit fees paid to auditor.	<b>10. The disclosure of financial relationships between the auditor and the auditee.</b>	3,7139	,59140	6,48	1,936

The factor “economic dependence of the auditor on the auditee” is found to be the most important, and, at the same time, the most influential in auditor independence. This factor is considered to be greatly undermining auditors’ independence. The results drawn are in accordance with the results of previous studies (Dykhoom and Sinning, 1982; Lindsay, 1990; Teoh and Lim, 1996; Beattie et al., 1999; Alleyne et al, 2006; al-Ajmi and Saudagaran, 2011; Albaqali and Kukreja, 2017; Senan and Sharma, 2017). It is noteworthy that all the premises related to this factor negatively affect auditors’ independence to a great extent, but auditors appear to mostly have their independence compromised when their income depends on a specific audit client.

Next, the factor “financial interest of the auditor” is found to be the second most important as to auditor independence, which is in accordance with the results of Al Sawalqa and Qtish (2012). On the contrary, Salehi et al. (2009) concluded that this factor is not of great importance. Additionally, this factor is found to undermine auditors’ independence to a great extent, which is consistent with the findings of Beattie et al. (1999), Alleyne et al. (2006), Salehi et al. (2009) and Al-Ajmi and Saudagaran (2011). However, it should be noted that auditors’ ‘financial interests’ mainly refer to valuable gifts. This is justified given that valuable gifts can be considered a type of fee provided in an indirect form and, as mentioned above, income is the main factor affecting auditors’ independence. Nevertheless, Law (2010) concluded that the offer of valuable gifts does not affect auditors’ independence, this being a practice common in the Chinese culture where the research was held, however, this is not the case in Greece.

The third most important factor was found to be “management’s de facto control of auditor’s appointment and remuneration”. This factor was found to greatly undermine auditors’ independence, presenting the second lowest score. Beattie et al. (1999), Alleyne et al. (2006) and Al-Ajmi and Saudagaran (2011) arrived at the same results. Auditors, wishing for their appointment, reappointment or a more favorable fee agreement, succumb to the management’s pressures. This explains the relationship potentially existing between this factor and the two abovementioned, since, when the auditee’s management controls the auditors’ appointment and remuneration, the auditors’ economic interest and income indirectly depend on the auditee.

The factor “regulations concerning the auditor’s appointment” was found to be the next most important factor in auditor independence. This contrasts with the results of Abu Bakar (2005), Adeyemi and Akinniyi (2011), Al Sawalqa and Qtish (2012), according to which this factor is one of the factors of the highest importance. Moreover, this factor was found to enhance auditors’ independence, which was reported to be most enhanced in the case of compulsory rotation of the audit firm every five years. This could be explained based on the fact that the cultural values, mentality and principles representing each audit firm pass on to and are adopted by its auditors. The studies of Beattie et al. (1999), Vanstraelen (2000), Alleyne et al. (2006), Ye et al. (2011), Daniels and Booker (2011), Adeyemi and Akinniyi (2011) and Al-Ajmi and Saudagaran (2011) also concluded that the frequent rotation of auditors increases their independence.

The next most important factor was found to concern the “risks to auditor arising from poor audit quality”, which is the factor that enhances the auditor’s independence the

most. The moderate level of importance attributed to this factor is probably due to the low degree of transparency in Greece, which, as already mentioned in previous section of the paper, pertains to both the public and private sector. For instance, despite the fact that the risk of judicial prosecution against the auditor greatly enhances their independence, due to the high level of corruption in the country, neither auditors nor financial statements' users believe that the appropriate sanctions are imposed in each case, therefore this factor is not considered to be of great significance. The same conclusions were drawn by Beattie et al. (1999), Alleyne et al. (2006), Al-Ajmi and Saudagaran (2011).

The sixth most important factor was found to be the "provision of non-audit services by auditor". On the contrary, Beattie et al. (1999) and Alleyne et al. (2006) found this factor and the one concerning economic dependence to be the two most significant in auditor independence. The results show that the greater the auditors' remuneration for the provision of non-audit services, the more undermined their independence will be, which is consistent with the results of Beattie et al. (1999), Abu Bakar et al. (2005), Salehi et al. (2009), Cahan et al. (2008), Adeyemi and Akinniyi (2011), Al-Ajmi and Saudagaran (2011) and Albaqali and Kukreja (2017). On the other hand, Gul (1989) found that the provision of non-audit services tends to enhance auditors' independence, while Bloomfield and Shackman (2008) concluded that the factor is of no consequence. It should be noted that Thornton et al. (2007) concluded that the users of financial statements who are likely to financially benefit from the auditors' provision of non-audit services have a more positive perception of the effect of this factor in auditor independence.

The next most important factor concerns the "level of competition within the external audit market". The research findings showed that the high level of competition within the audit market greatly undermines auditor independence, with which the majority of studies agree (Beattie et al., 1999; Abu Bakar et al., 2005; Alleyne et al., 2006; Salehi et al., 2009; Al-Ajmi and Saudagaran, 2011; Albaqali and Kukreja, 2017). With a view to maintain and develop their clientele, audit firms and auditors are seeking a competitive advantage. It is a fact that audit quality depends on the knowledge, skills and personality of the auditor. So, taking into account that auditors' level of knowledge and skills is in any case required to be high, their personality and social skills is a parameter that can differentiate them. In that way, auditors can gain a competitive advantage through the interpersonal relationships developed with the auditee. This, however, may probably lead to the undermining of auditor independence.

The factor "disclosure of financial relationships between the auditor and the auditee" is the next most important factor in auditor independence and was found to positively affect auditors' independence, which is in accordance with the results of Beattie et al. (1999), Alleyne et al. (2006) and Al-Ajmi and Saudagaran (2011). It is noteworthy that the disclosure of non-audit services provided by the auditor, as well as the disclosure of non-audit fees paid to the auditor affect auditors' independence the most. This fact once again highlights the great importance of the factor "provision of non-audit services by auditor".

Then, the factor “audit firm size” was found to be of moderate importance. The same conclusions were presented by Alleyne et al. (2006) and Al Sawalqa and Qtish (2012). On the contrary, Gul (1989), Lindsay (1990), Beattie et al. (1999), Abu Bakar et al. (2005), Bloomfield and Shackman (2008) concluded that this factor is one of the most important in auditor independence. Moreover, according to the research findings, the large domestic firms and the leading international firms seem to exhibit a greater degree of independence, which is consistent with the results of Beattie et al., 1999; Abu Bakar et al., 2005; Al-Ajmi and Saudagaran, 2011. This is probably due to the fact that large audit firms have a more extended clientele, so a potential scandal would be more detrimental to them.

Finally, “particular characteristics of the auditee” was found to be the least important factor affecting auditor independence, however not remarkably differing in score from the previous one. Moreover, the results showed that the financial position, the reputation and the firm size of the auditee do not substantially affect auditor independence. These results are in accordance with these of Alleyne et al. (2006). However, the majority of studies have found that the higher the status and the position of the auditee, the more likely it is for auditor independence to be impaired (Knapp, 1985; Beattie, 1999; Reynolds and Francis, 2001; Al-Ajmi and Saudagaran, 2011).

At this point, regarding the importance of each factor in auditor independence, it is worth noting that despite the ranking each one of them received, none is assessed to be unimportant.

Following, one-way ANOVA tests were used to answer the research questions Q1, Q2 and Q3. The results in Table 6 indicate that there are statistically significant differences between the responses of auditors, financial managers/accounting managers/accountants, bank loan officers and shareholders/partners occupation/group), evaluated at a significance level 0,05 and a significance level 0,10 .

More specifically, the results show that there is statistically significant difference in the perceptions of the four groups concerning auditor independence in appearance, estimated at a 0,05 level (Q1). Moreover, according to the results, there are statistically significant differences in the perceptions of the four groups as to “audit firm size”, “financial interest of the auditor”, “risks to auditor arising from poor audit quality” and “regulations concerning the auditor’s appointment” affecting auditor independence, estimated at a 0,05 level (Q2). Also, there is statistically significant difference in the perceptions of the four groups as to the “particular characteristics of the auditee” affecting auditors’ independence estimated at a 0,10 level (Q2).

Regarding research question 3 (Q3), there is no statistically significant difference concerning the perceptions of each of the four groups as to factor significance, except for the significance of “the provision of non-audit services by the auditor” estimated at a 0,01 level.

**Table 6:** One-way ANOVA (factor is occupation/group).

		Sum of Squares	df	Mean Square	F	Sig.
<b>Auditor Independence in appearance</b>	Between Groups	6,733	3	2,244	2,772	,045
	Within Groups	93,933	116	,810		
	Total	100,667	119			
<b>Factor 1</b>	Between Groups	1,711	3	,570	1,423	,240
	Within Groups	46,496	116	,401		
	Total	48,207	119			
<b>Factor 2</b>	Between Groups	,608	3	,203	,529	,663
	Within Groups	44,483	116	,383		
	Total	45,092	119			
<b>Factor 3</b>	Between Groups	,779	3	,260	,928	,430
	Within Groups	32,463	116	,280		
	Total	33,242	119			
<b>Factor 4</b>	Between Groups	1,568	3	,523	2,789	,044
	Within Groups	21,740	116	,187		
	Total	23,308	119			
<b>Factor 5</b>	Between Groups	2,742	3	,914	2,808	,043
	Within Groups	37,750	116	,325		
	Total	40,492	119			
<b>Factor 6</b>	Between Groups	,123	3	,041	,063	,979
	Within Groups	75,775	116	,653		
	Total	75,898	119			
<b>Factor 7</b>	Between Groups	1,273	3	,424	2,257	,085
	Within Groups	21,808	116	,188		
	Total	23,081	119			
<b>Factor 8</b>	Between Groups	3,652	3	1,217	3,216	,025
	Within Groups	43,904	116	,378		
	Total	47,556	119			
<b>Factor 9</b>	Between Groups	2,593	3	,864	3,945	,010
	Within Groups	25,415	116	,219		
	Total	28,008	119			
<b>Factor 10</b>	Between Groups	1,906	3	,635	1,856	,141
	Within Groups	39,715	116	,342		
	Total	41,621	119			
<b>Significance of Factor 1</b>	Between Groups	2,892	3	,964	,604	,614
	Within Groups	185,100	116	1,596		
	Total	187,992	119			
<b>Significance of Factor 2</b>	Between Groups	14,200	3	4,733	1,607	,192
	Within Groups	341,667	116	2,945		
	Total	355,867	119			
<b>Significance of Factor 3</b>	Between Groups	28,067	3	9,356	4,243	,007
	Within Groups	255,800	116	2,205		
	Total	283,867	119			
<b>Significance of Factor 4</b>	Between Groups	17,025	3	5,675	1,663	,179
	Within Groups	395,967	116	3,414		
	Total	412,992	119			
<b>Significance of Factor 5</b>	Between Groups	5,633	3	1,878	,838	,476
	Within Groups	260,067	116	2,242		
	Total	265,700	119			
<b>Significance of Factor 6</b>	Between Groups	9,267	3	3,089	1,056	,371
	Within Groups	339,400	116	2,926		
	Total	348,667	119			
<b>Significance of Factor 7</b>	Between Groups	18,867	3	6,289	1,680	,175
	Within Groups	434,333	116	3,744		
	Total	453,200	119			
<b>Significance of Factor 8</b>	Between Groups	23,767	3	7,922	1,720	,167
	Within Groups	534,200	116	4,605		
	Total	557,967	119			
<b>Significance of Factor 9</b>	Between Groups	12,300	3	4,100	1,067	,366
	Within Groups	445,667	116	3,842		
	Total	457,967	119			
<b>Significance of Factor 10</b>	Between Groups	7,225	3	2,408	,637	,593
	Within Groups	438,700	116	3,782		
	Total	445,925	119			

The table below (Table 7) shows the hypothesis test results acquired based on the research hypotheses (H1, H2, H3) examined in the present study.

**Table 7:** Hypotheses testing.

Research question	Null Hypotheses for each test	Result
Q1	H1: There is no statistically significant difference between the perceptions of financial statements' users in Greece as to auditor independence and their occupation.	Reject
Q2	H2: There is no statistically significant difference between the factors affecting auditor independence in appearance and the occupation of financial statements' users in Greece.	Reject for factors:4,5,7,8,9
Q3	H3: There is no statistically significant difference between the significance of the factors affecting auditor independence in appearance and the occupation of financial statements' users in Greece.	Reject for factor 3

In order to determine whether there is a correlation between the factors affecting auditor independence and the level of auditor independence in appearance, a Pearson correlation test was conducted. Table 8 reports that the level of auditor independence in appearance and the majority of the factors affecting auditor independence (factor 1, factor 2, factor 3, factor 4, factor 5, factor 8) are correlated at a 0,01 significance level, while the level of auditor independence in appearance and factor 10 are correlated at a 0,05 significance level.

**Table 8:** Correlation between factors affecting auditor independence and the level of auditor independence in appearance.

Correlations											
		Factor1	Factor2	Factor3	Factor4	Factor5	Factor6	Factor7	Factor8	Factor9	Factor10
Auditors' independence in appearance	Pearson										
	Correlation	,308**	,369**	,245**	,250**	,261**	,121	,130	,255**	,078	-,179*
	Sig. (2-tailed)	,001	,000	,007	,006	,004	,188	,158	,005	,399	,050
	N	120	120	120	120	120	120	120	120	120	120

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Taking into account the results of the Pearson correlation test, and in order to answer the research question 4 (Q4), a regression analysis was applied. This involved the implementation of the Ordinary Least Square method, setting the level of auditor independence in appearance as a dependent variable, while setting as independent variables: factor 1 (the economic dependence of the auditor on the auditee), factor 2 (the level of competition within the external audit market), factor 3 (the provision of non-audit services by auditor), factor 4 (the audit firm size), factor 5 (the financial interest of the auditor), factor 8 (the risks to auditor arising from poor audit quality) and factor 10 (the disclosure of financial relationships between the auditor and the auditee).

Multiple regression results (Table 9) show a statistically significant relationship between auditor independence in appearance and the economic dependence of the auditor on the auditee, the provision of non-audit services by the auditor, the financial

interest of the auditor and the risks for the auditor arising from poor audit quality, estimated at a 0.01 level. In other words, these four factors were found to affect the level of auditor independence in appearance in Greece, according to the opinions of users of financial statements. It is noteworthy that factor 1 and factor 5 were ranked by the sample as the most significant factors affecting auditor independence, while factor 3 and factor 8 were ranked among the most significant ones.

**Table 9:** Multiple Regression.

Heteroskedasticity-corrected model, using observations 1-120 Dependent variable: Auditor independence in appearance				
	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>
<b>const</b>	-2.51024	0.872995	-2.875	0.0048 ***
<b>Factor 1</b>	0.495474	0.183018	2.707	0.0078 ***
<b>Factor 2</b>	0.0355763	0.125579	0.2833	0.7775
<b>Factor 3</b>	0.407048	0.122522	3.322	0.0012 ***
<b>Factor 4</b>	0.0110554	0.183695	0.06018	0.9521
<b>Factor 5</b>	0.659674	0.154504	4.270	<0.0001 ***
<b>Factor 8</b>	0.511540	0.0864716	5.916	<0.0001 ***
<b>Factor 10</b>	0.00304446	0.0996673	0.03055	0.9757
R-squared	0.568553	Adjusted R-squared	0.541587	
F(7, 112)	21.08448	P-value(F)	6.91e-18	

The table below (Table 10) shows the hypothesis test results acquired based on the last research hypothesis examined in the present study.

**Table 10:** Hypotheses testing.

Research question	Null Hypothesis for each test		Result
Q4	Factor 1	The economic dependence of the auditor on the auditee does not significantly affect auditor independence in Greece.	Reject
	Factor 2	The level of competition within the external audit market does not significantly affect auditor independence in Greece.	Accept
	Factor 3	The provision of non-audit services by auditor does not significantly affect auditor independence in Greece.	Reject
	Factor 4	The audit firm size does not significantly affect auditor independence in Greece.	Accept
	Factor 5	The financial interest of the auditor does not significantly affect auditor independence in Greece.	Reject
	Factor 8	The risks to auditor arising from poor audit quality do not significantly affect auditor independence in Greece.	Reject
	Factor 10	The disclosure of financial relationships between the auditor and the auditee does not significantly affect auditor independence in Greece.	Accept

Following, the second part of the questionnaire asked of the respondents to write down which other factors, apart from the factors provided in the first part, may be affecting auditor independence according to their opinion (Table 11). There was a response rate of approximately 56%, i.e. only 67 of the 120 research participants answered this question. It became clear that the users of financial statements mainly focused on the



culture, principles and values of the Greek society and, as a consequence, of the auditor and the auditee. They also highlighted corruption in Greece as a phenomenon that plays a crucial role in every aspect of the society – it is easily inferred that auditor independence cannot be an exception.

Additionally, the users of financial statements referred to the importance of the role of supervisory bodies in the auditing process. The users focused on the role of supervisory bodies on the quality control of audit files, as well as on their mobilization aiming both at the adoption of an efficient regulatory framework and at the avoidance of significant divergence in audit fees. The latter is directly related to the factor concerning “the level of competition within the external audit market”. In any case, all factors recorded by the users of financial statements may partly be related to the fact that the country of Greece consists of small societies/markets (where the development of close relationships between the various parties is not uncommon), as well as to the fact that the majority of companies in Greece are family businesses (less receptive to audit).

**Table 11:** Other factors that affect auditor independence according to users of financial statements.

S/N	Factors	Frequency
1	The personality of the auditor (ethics and personal integrity, principles and values, etc.)	24
2	The mentality and cultural parameters related to the Greek society (including corruption)	18
3	The role of HAASOB (Hellenic Accounting and Auditing Standards Oversight Boards)	15
4	The mentality and cultural parameters related to the auditee	13
5	The regulatory framework concerning the remuneration of auditors (elimination of phenomena like special offers that do not meet the volume and the demands of the audit work)	13
6	The auditor's prospect to develop a future working relationship with the auditee, apart from providing audit services	8
7	The previous working relationship between auditor and auditee	8
8	The philosophy, culture and general principles of each audit firm's management, also imparted to auditors	4
9	The existence of informal unions between auditors/auditing firms and accountants/accounting offices	2

## CONCLUSION

Overall, this study confirmed the complexity and the importance of the concept of auditor independence, as described in the theoretical background established at the beginning. Based on the research conducted, the level of auditor independence in Greece, according to the perceptions of users of financial statements, was assessed as moderate and in need of enhancement. “Caesar’s wife must not just be honourable but must appear to be so” is the motto fitting perfectly in this case, as users of financial statements should believe in auditors’ independence in order to consider the financial statements provided trustworthy. Subsequently, it becomes apparent that there is a crucial need for the adoption of further measures with regard to regulations governing the profession of the auditor and the external audit itself.

Therefore, in order to identify the parameters on which policy-makers should focus, it is necessary to investigate the factors affecting auditor independence in Greece in correlation to the country's particularities and individual characteristics: a developed country with a relatively small population, and, subsequently, relatively small markets, which is also experiencing a period of economic crisis and presents a high corruption index. Taking into account these characteristics, the study concludes that auditor independence in Greece is affected by the economic dependence of the auditor on the auditee, the provision of non-audit services by the auditor, the financial interest of the auditor and the potential risks for the auditor arising from poor audit quality. It becomes clear that these factors are also related to the country's economic crisis, the prevalent work ethics and corruption arising on various levels of the Greek society, as well as to the role of supervisory bodies of auditing. Economic crisis, involving turnover reduction, reduction in fees and a reduction in the number of potential clients, made auditors more reliant on economic factors. On the other hand, cultural parameters and the degree of corruption in Greek society are issues that most of the respondents focused on, underlining these and the personality of the auditor, namely, their ethics, personal integrity, principles and values, as very important factors affecting auditor independence.

Hence, the research results could trigger the interest of policy-makers towards a more focused approach on the crucial issue of auditor independence, involving a re-evaluation of the existing principles and regulations in accordance with the special characteristics of the Greek society and Greek market. It is clear that the presentation of suggestions aiming at the enhancement of auditor independence is a complex issue and does not fall within the scope of this study. In order for an identification of the most suitable solutions to be possible, a synergy of auditing agents, regulative bodies, and social sciences experts would be essential. Moreover, in terms of future research, comparative studies involving countries which present the same characteristics as Greece could provide a broad field of research. In this way, the development of a specialized framework would be feasible, focusing on the factors affecting auditor independence in countries potentially going through an economic crisis period, or presenting a high corruption index, a fluctuating economic and political setting, or generally an inhospitable business environment. Finally, taking into account that, according to the research findings, the perceptions of the four groups of users of financial statements presented differences, there is room for the conduct of future studies that would focus and deepen on this differentiation. In conclusion, it is unquestionable that auditor independence should be subject to continuous assessment aiming at its enhancement. Nonetheless, if the purpose is to enhance credibility and reliability of financial statements, then independence in appearance should be numbered among the auditing standards, as also demonstrated by the feedback received from all the groups of users of financial statements.

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