

ACCOUNTING ETHICS: A STUDY OF PROFESSIONAL INDEPENDENCE STATUS OF ACCOUNTING FIRMS IN BOTSWANA

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ABSTRACT

The purpose of this study was to determine if auditing firms in Botswana have begun to provide services beyond traditional auditing. It also sought to establish whether income from such services was significant compared to income from auditing, and whether audit firms in Botswana have in place mechanisms to assure quality audit work. In view of these, an attempt was made to establish the professional independence status of Botswana public auditors.

Data for the study was collected from thirteen audit firms on the basis of the register of auditors maintained by the Botswana Institute of Accountants. The results showed that audit firms in Botswana provided other services beyond the traditional audit work. The collective income obtained from these other services exceeded that generated by professional audit work. We also found that audit firms had some mechanisms in place to ensure quality audit work. However, most of the audited companies did not use audit committees and the audit firms did not recommend their use. The evidence was not sufficient to explicitly judge independence, but the results suggested that perceived auditor independence could be affected.

INTRODUCTION

Ethics in public accounting has increasingly become an issue in the accounting profession. Accounting scholars and practitioners alike have expressed concern over the current status of the profession, including events that cause professional ethics to be questioned, and especially issues of auditor independence (Davidson & Emby, 1996; Lowe & Pany, 1995). Traditionally, ethical requirements in different professions, accounting included, were seen as imposing a number of restrictions on the professions. For example, professional firms were not allowed to include among their membership non-professionals, and they were not allowed to advertise in any way (Maurice, 1996). Subsequently, most of the restrictions were lifted as a result of changes in the socio-economic and legal environment. For example, proliferation of professionally qualified accountants made it possible and necessary to loosen restrictions on advertising and promotional activities in many countries. However, the relaxation of restrictions has led to concerns as to whether such relaxation has affected professional, and especially public accountants' ethical behavior. Most of this concern is over the ability of public accountants, or auditors, to maintain objectivity and independence in the conduct of audit work.

According to the Auditors' Code developed by the Auditing Practices Board (APB) in the U.K., there are nine fundamental principles of independent auditing, of which three relate to the concept of credibility. The three credibility concepts are competence, independence, and integrity (Gray & Manson, 2000). Doubts about the auditors' ability to maintain professional independence therefore implies, albeit indirectly, doubts over the credibility of the auditors and their work. These in turn may lead to the declining value of the auditor's opinion. Recently, the International Federation of Accountants (IFAC), reacting to the developments alluded to above, came out with an "Exposure Draft on Independence: Proposed Changes to the Code of Ethics for Professional Accountants." This draft dealt with the question of professional independence, and IFAC noted that the expectations now placed on public accounting firms could threaten these firms' independence and that more detailed guidance on independence issues is required (IFAC, 2000). The present study was partly inspired by that Exposure Draft.

THE BOTSWANA ACCOUNTING ENVIRONMENT

The Accountants Act of 1988 governs the accounting regulatory environment in Botswana. Section 3 of this Act provides for the establishment of the Botswana Institute of Accountants (BIA) as a body corporate under the Ministry of Finance and Planning. According to the former Assistant Minister of Finance and

Development Planning, this was necessary as accounting work in the country was conducted by professional accountants, 95% of whom were expatriates (Hansard, 1988). Establishing the BIA directly under the Ministry was considered a means of facilitating the faster localization of the accounting profession in Botswana.

This action differentiates the institute from professional organizations in other parts of the world where professional fraternity motivates the formation of institutes. As explained above, the majority of professional accountants in Botswana were expatriates. This means they had “foreign” qualifications and were affiliated with accounting associations or institutions outside Botswana. Even now, there is still no “local” equivalent to the qualifications offered by the Chartered Association of Management Accountants (CIMA) and Association of Chartered Certified Accountants (ACCA) of U.K., for example. With the diverse “expatriate” accountants affiliating themselves with equally diverse accounting institutions, it is unlikely that a “local” accounting institution can come into being soon to offer such qualifications.

Considering the diversity, the BIA has responsibilities and functions similar to those of other professional organizations. It is responsible for advancing the art of accountancy, financial management, taxation and allied subjects, maintaining the integrity and status of the profession, and providing for the education, training and examination of persons practicing or intending to practice the profession of accountancy.

This means that any person or group of persons practicing as professional accountants in Botswana must first register with the BIA in one of the four categories of Fellow, Associate, Registered and Licentiate (BIA, 1998). Under this section, only those registered as Fellow and Associate members are eligible to practice as accountants. Under Section 15 of the same Act of 1998, further separate registration as a practicing member is required for those intending to practice of audit in Botswana.

As a member of the IFAC, BIA is professionally bound to adhere to all International Accounting Standards (IAS) and International Standards on Auditing (ISA) and any other proclamations by the international body. These include the rules on independence. At the moment there are no specific rules relating to professional independence issued by the BIA. Nevertheless, in relation to professional independence, the Companies Act Cap 42:01(1984) provides auditors the right to make a qualified report if there is any problem, and the right to access books and accounts of the company being audited, as well as the right to attend the general meeting of the company's members (Sec. 124 & 125).

The Institute therefore has assumed most of the functions performed by professional institutions in other parts of the world, for example, in the U.K. However, it has yet to establish its own professional qualification system whereby prospective

local accountants would be able to acquire a local professional qualification. It currently facilitates and actively encourages aspirants to professional accounting to acquire the U.K. qualifications of ACCA and CIMA, and requires an examination in local Companies Act and Taxation. This is ironic in that the government rather than the professional fraternity formed BIA. The impact of this approach to forming BIA on the profession in Botswana is a subject for future research.

STUDY OBJECTIVES

The easing of restrictions on professional practice has led to increasing involvement between audit firms and their audit including providing services in addition to the audit. As suggested above, this has led to a growing concern over the objectivity of the auditors. Traditionally, auditors were expected not to have any kind of relationship with their clients other than the provision, through auditing, of attestation services. Auditors were not expected to become too familiar with their clients. Familiarity with the client was considered to be potentially detrimental to the neutral attitude auditors were expected to have. However, this has changed drastically. Presently, auditors are allowed to, among other things, advertise their services that extend beyond the traditional audit engagement.

Botswana's economy is relatively small compared to other countries both within and outside the African continent. With an estimated total population of 1,693,970 in 2001 (Central Statistics Office, 2001) in a land covering more than 580,000 square kilometers, Botswana has only 29 Public Limited Companies, 7,545 Proprietary Limited Companies and 28 parastatals (Bonu & Matome, 2001, p. 36). A few other business units exist in the form of partnerships and sole traders. The Companies Act of Botswana Cap 42:01 requires that a Public Limited Company must appoint a qualified Auditor (Sec. 117 (1)) for the purpose of having its accounts audited (Sec. 121 (1) & (2)). A Proprietary Limited Company is, however, exempted from this requirement (Sec. 121 (8)), although it may acquire such services for bank loan purposes or government subsidy. Parastatals are public sector undertakings to be audited by the Auditor General of Botswana. They are not required to appoint a professional auditor from private audit firms. Partnerships and other sole traders mostly acquire professional assistance in the preparation of accounts.

It is thus apparent that the market for auditing services is somewhat restricted. There are 439 operating professional accounting firms¹, of which less than twenty are registered as authorized audit firms, servicing the Botswana market. This number as a point of interest includes all the "big five"² professional accounting firms, and nearly all of them are headquartered in Gaborone, the capital city. In such a

situation, there is bound to be intense competition among the accounting firms for accounting and auditing business in the country. Although cases suggesting a problem with independence in Botswana are few, with only one involving an auditor in the past three years that did not reach the court stage but was settled at the BIA committee stage, this is a problem that raises concern on the ethical conduct of these accounting firms in their efforts to survive. In particular, the problem raises concern as to whether public auditing firms in Botswana are able to maintain an independent approach to audit engagements.

To address this research problem, the following research objectives were set for this study. The primary objective was to find out whether public auditors in Botswana appear to take up audit assignments with an impartial, unprejudiced mind. Specifically, the study sought to establish:

- (i) whether public auditing firms in Botswana routinely provide significant non-auditing services to their clients;
- (ii) whether services other than auditing services, if provided, constitute a major source of income to public auditing firms in Botswana;
- (iii) whether members of public auditing firms in Botswana routinely make management decisions for and on behalf of their clients; and
- (iv) whether public auditing firms in Botswana institute quality control measures.

CONCEPTUAL FRAMEWORK

Financial statements are considered to have greater significance if they are accompanied by an independent opinion that is credible. Credibility has to do with acceptability and trustworthiness and is attained through integrity, competence, and independence. Public accountants³ are expected to behave with integrity (Maurice, 1996), which has to do with honesty and truthfulness. Competence deals with the ability of the auditor to perform the audit assignment to an expected standard, an important element in instilling public confidence in the auditor's work. These two concepts, though also important, were not the major focus of this study. The third credibility concept, independence, is the major focus of this study. The independence of the auditor is an important component of the assurance an audit report provides its beneficiaries. An opinion without influences that impair professional judgment (IFAC, 2000) can be considered to be the backbone of external attestation: the fact that a person *external* to an entity is called in to examine the financial records with a view to rendering a *professional* opinion is an indication of the importance attached to independence. This is also evidenced in the definition of auditing: "... the *independent* examination of, and expression of an opinion on,

the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation” (APC, 1980)⁴.

All the same, a concise definition of independence is lacking and researchers have been free to define independence in various ways. Some of these definitions include “an auditor’s making reporting decisions consistent with his or her beliefs as to whether the reporting decision may be regarded as an audit failure” (Magee & Tseng, 1990, p. 322), “power to withstand management pressures in a conflict situation” (Emby & Davidson, 1998, p. 9), and “the absence of collusion between the auditor and the manager of the client firm” (Lee & Gu, 1998, p. 3). In the U.S., the definitions include “the ability to act with integrity and objectivity” (Frost & Ramin, 1996, p. 8). An auditor is judged to be independent by actually acting independently (independent in fact) and by appearing to be independent. In the U.K., independence is defined as “freedom from influences that could affect a member’s objectivity” (Frost & Ramin, 1996, p. 8). Beattie and Brandt’s definition of independence is “acting with integrity and objectivity and being able to withstand pressure from management to infringe professional standards” (Beattie & Brandt, 1999, p. 8). This last definition is more or less a combination of the U.S. definition and the one given by Emby and Davidson (1998).

The IFAC Exposure Draft (IFAC, 2000, p. 5) defines independence as:

- (a) The state of mind that permits the provision of an opinion without being affected by influences that impair professional judgment (sometimes referred to as independence of mind), and
- (b) the ability to demonstrate that risks to independence of mind have been eliminated or limited to such clearly insignificant matters that an informed third party would not reasonably question the reporting accountant’s objectivity (sometimes referred to as independence of appearance).

The definition is dichotomous so as to give prominence to the two important elements of independence: the attitude of mind and the manner in which the auditor, as a professional, is expected to behave in front of the public and especially consumers of his or her services. This is in line with the U.K. and U.S., and most other basic textbooks’ definitions on auditing.

REVIEW OF RELATED LITERATURE

Numerous literature exist expressing apprehension on the independence of the modern auditor, and noting that professional independence was being eroded as a result of various environmental pressures. Attempts have been made to identify the various sources of these pressures.

Ethical behavior by public accountants has been quite extensively studied, and the foci of the studies have been equally diverse. Most studies on ethics in accounting have, however, focused on the independence of public accountants, and how that independence is being affected by professional and environmental developments (Beattie & Brandt, 1999; Chapman, 1995; Emby & Davidson, 1998; Lee & Gu, 1998).

Independence or objectivity can be endangered by self-interest threat, self-review threat, advocacy threat, familiarity or trust threat, and intimidation threat (Maurice, 1996). The first was the focus of the study by Goldman and Barlev (1974).⁵ The second has to do with the auditor reviewing his or her own work. The advocacy threat arises in cases where an auditor knowingly supports the client's view even where such a view is not professionally acceptable. Familiarity or trust threat occurs where the auditor is closely associated with the directors of the client to the extent of unknowingly agreeing to most of their views. This threat differs from the advocacy threat in the sense that the auditor in this case finds himself or herself being drawn to concur with views expressed by the client, whereas in the case of advocacy, the auditor actively promotes views favoring the client. In both cases the auditor may form an opinion on the financial statements that is biased in favor of the client. Finally, an auditor can be intimidated by a domineering personality on the client's board who may project a feeling that the auditor should purposely behave unprofessionally.

Shockley (1982)⁶ addressed the self-review threat. Arguing that being seen to be independent (independence in appearance) is as important as actually being independent (independence in fact), Shockley (1982) identified several factors that affected the auditor's appearance of being independent. Among these were the provision of management advisory services (MAS) and competition within the auditing profession.

The notion that provision of MAS by auditors to their audit clients affects their perceived independence is rather controversial. Arguments to the effect that the provision by the public accountant of both auditing and consultancy services affected audit independence have existed for decades (e.g. Briloff, 1966; Schulte, 1965). The American Institute of Certified Public Accountants (AICPA) Rule of Conduct No. 101 permits an audit firm in the USA to do both bookkeeping and auditing for the same client (AICPA, 1976; Arens & Loebbecke, 1997). Big Five firms have supported this, claiming that it has not been shown that the provision of MAS may affect the auditor's ability to withstand pressure. However, it was found in Nigeria that auditors who offered MAS to their audit clients had a higher risk of losing their independence than those who did not (Addo-Nkrumah, 1998).⁷ Furthermore, literature still abound citing the provision of MAS to audit clients as

being detrimental to auditors' perceived independence (Beattie & Brandt, 1999; Engle, 1996; Teoh & Lim, 1996).

Competition within the auditing profession, as suggested by Shockley (1982), has not been deeply investigated. However, it was found that when competition is done through the pricing of services, the auditor's "value of incumbency" does not threaten independence (Magee & Tseng, 1990). It was also demonstrated that low-balling can jeopardize auditor independence if the owner of the firm did not have the right to hire and fire (Lee & Gu, 1998). Finally, charging large audit fees threatened perceived auditor independence (Beattie & Brandt, 1999; Teoh & Lim, 1996).

The literature seems to suggest that the presence of a large number of audit firms competing in a small market for audit services actually favors perceived independence as opposed to a few firms operating in a monopoly market. However, it appears difficult to validate this position in the Botswana context. In Botswana, it is either a big firm or a small firm, where a big firm would most likely be a Big Five firm. With less than twenty firms registered to render audit services and less than thirty companies legally compelled to have their accounts audited, it surely is not a "one or two clients each" situation. It is very likely that for most of the firms, non-audit work would be the source of livelihood. Whether this makes them appear to be less independent is debatable.

The reviewed literature clearly suggests that concerns about auditor independence are valid. It is also quite apparent that evidence to support a particular position regarding auditor independence is still weak. The contradictory findings of the various studies are testimony to that. However, what clearly emerges from the literature is the fact that there is concern over the ethical conduct of auditors.

Unfortunately, with the exception of the Nigerian study, no other studies exist on the professional independence of auditors, perceived or otherwise, in an African context. The majority of the studies above were undertaken in the context of developed countries. The present study therefore intends to fill that gap by looking at how public accountants in the Botswana setting behave ethically.

RESEARCH METHOD

The Sample

We studied thirteen of fifteen audit firms registered with the Botswana Institute of Accountants (BIA) as Authorized Auditors. These were identified from a list obtained from BIA. The list of registered audit firms had fifteen firms on it. However, only thirteen could be traced. The questionnaire was therefore submitted to

thirteen audit firms registered with BIA. To minimize non-response, follow-up guidelines were devised and adhered to.

All thirteen questionnaires, duly completed, were returned, giving a 100% response rate. With the exception of the two firms that could not be traced, the responses represent views from all audit firms practicing in Botswana. This provides greater meaning to the interpretation of the results, and is a unique advantage of this study. Audit firms in Botswana have not usually been receptive to academic researches, and this was one reason why a personal interview was not included as part of the research design. The researchers did not seek to relate responses with the respondents, and with no identity assigned to the questionnaires at the analysis stage, it was possible to ensure anonymity to a large extent, although it is unlikely that identification would have affected the interpretation of the results.

Data Collection

Data were collected using a detailed, structured questionnaire that was hand-delivered to twelve of the thirteen study subjects within Gaborone. Only one firm is located outside Gaborone. To this firm, the questionnaire was sent by e-mail, and the response was received through the same medium. Specific requests on the time frame for completing the questionnaire were provided.

Data Analysis

The size of the sample was small and this imposed some restrictions on the extent and type of analysis to be performed. Microsoft Excel spreadsheet was used to analyze quantitative data. As for qualitative data, an attempt was made to associate the study findings with the study objectives in order to reach conclusions. With regard to objectives one to three, results that were affirmative were considered to be detrimental to perceived independence. For the fourth objective, results indicating the presence of quality control measures are a plus to perceived independence.

RESULTS

Demographics

The respondents' characteristics are summarized in Table 1. Nine out of the thirteen respondents were partners. Of these, four were Managing Partners and two were

Table 1. Respondent Demographics.

Title of Respondents	Number	Percentage
Partners	9	69.2
Managing	4	44.5
Senior	2	22.2
Partner	3	33.3
Managing director/audit manager	1	7.7
Director	1	7.7
Not indicated	2	15.4
Total	13	100.0
Size of respondent's firm number of professionals		
1	1	7.7
2-5	2	15.4
6-10	4	30.8
11-20	0	0.0
21-30	2	15.4
Over 30	4	30.8
Total	13	100.1 ^a
Number of years firm has existed		
Less than 5 years	2	15.4
5-10 years	1	7.7
11-15 years	4	30.8
16-20 years	2	15.4
21-25 years	1	7.7
26-30 years	1	7.7
Over 30 years	2	15.4
Total	13	100.1 ^a

^aRounding up error.

Senior Partners. One respondent was an Audit Manager with the role of Managing Director, and another was a Director. Two respondents did not indicate their titles. The average years of experience for nine of the respondents who answered this question was 22.4 years. The minimum experience was 15 years and the maximum was 45. This gives a range of 30 years. It is evident that very senior people in the audit firms answered the survey, which gives the responses received more weight.

Table 1 further indicates the size of the audit firm from which the respondents came from as follows:

Of the thirteen respondents, one (7.7%) was a sole practitioner, two (15.4%) came from an office with up to five professionals, and four were in a firm with six to

ten professionals. The firm for two respondents (15.4%) had 21 to 30 professionals, and that of four respondents (30.8%) had more than 30 professionals.

Table 1 also summarizes the number of years the respondents' firm has been in existence. The question was not specific as to whether the existence was with respect to Botswana or elsewhere. Due to a significant amount of collaboration among audit firms globally and significant events that have affected the audit firms, one can assume that the response is with respect to the existence of the firm globally, though not necessarily in Botswana.

The firm for two respondents has been in existence for less than five years. One firm has existed for five to ten years, four have been around for 11–15 years, and two respondents came from firms that have existed for 16–20 years. One respondent came from a firm that has been in existence for 21–25 years and another one from a firm that has been around for 26–30 years. Only two respondents came from a firm in existence for over 30 years.

For the thirteen firms examined in this study, there are forty-one partners. The firm with the most number of partners has seven, while the one with the least has one partner. The number of partners admitted into partnership in the three years prior to this study was ten. Eight firms (61.5%) admitted at least one partner in those three years.

Three firms (23.1%) indicated that they had partners who were not members of an accountancy professional institute. These were admitted as directors with responsibilities in non-audit business. It is emphasized that the non-professional accountants have responsibilities not related to auditing. It was mentioned in the literature review that the provision of non-audit services might affect independence. Judging independence solely on the basis of the professional inclination of the partners however is not easy. In this particular study, on the basis of this qualitative information, only less than a quarter of the firms dedicate non-audit work to non-accountants, thereby dispelling the notion that their independence is impaired. By implication, the majority of the firms might be exposing themselves to perceptions of lack of independence.

Services Provided

Table 2 summarizes the type of services usually provided by the firms.

Twelve firms (about 92%) indicated that they perform professional audit work. It is surprising that only part of the group responded affirmatively: all thirteen firms have been registered to provide audit services. Ten firms (77%) provided bookkeeping and other accountancy work. Internal auditing and budgeting and other management accounting work are each provided by nine firms (69.2%). Only

Table 2. Services Usually Provided by Audit Firms.

Service	Firms Providing	Percent Total
Professional audit work	12	92.3
Bookkeeping and other accountancy work	10	76.9
Budgeting and other management accountancy work	9	69.2
Internal auditing	9	69.2
Recruitment and placement	4	30.8

four firms (31%) provided recruitment and placement services. Table 3 provides a summary of other services offered.

Management consulting appears to be a popular service offered by seven firms (over 53%). Provision of tax services is the second most preferred service, offered by six firms (over 46%). In the Botswana context, more firms provide management consultancy and tax services than recruitment and placement services, which ties with corporate services, offered by four firms (31%). Company secretarial services are offered by three firms (23%) only, as are liquidation services.

Table 4 indicates the approximate average percentage income from each type of service offered by the audit firms.

This question had a low response rate. However, the table provides an indication as to the percentage income generated by each of the five major services listed. Among these services, professional audit work generates the highest percentage

Table 3. Other Services Provided by Audit Firms.

Service	Firms Providing	Percent of Total
Management consulting	7	53.8
Tax services	6	46.2
Corporate services	4	30.8
Company secretarial services	3	23.1
Liquidation	3	23.1
Judicial	2	15.4
Business plan	1	7.7
Computerization of accounts	1	7.7
Feasibility studies	1	7.7
Insolvency	1	7.7
Marketing research	1	7.7
Permits, visas and licenses	1	7.7
Treasury and financial services	1	7.7

Table 4. Average Percentage Income per Service Category.

Service	Percentage Income
Recruitment and placement	0.23
Bookkeeping and other accountancy work	22.85
Professional audit work	30.62
Internal auditing	1.38
Budgeting and other management accounting work	9.00
Other services	35.92

income to the firms. This was expected because professional audit work is the main business line of these firms, which were selected for study on the basis of their being registered as audit firms in the country. Bookkeeping and other accountancy work is the next highest income generator for the firms, consistent with what most professional accountancy firms are doing. Budgeting/management accounting, internal auditing and recruitment and placement services do not generate as much income for the firms. These three services together generate 10.61% to the firms' total income.

The results indicate that in addition to audit services, at least 76% provided bookkeeping and other accountancy work, while close to 70% provided internal auditing and management accounting services, including budgeting. Hence a majority of the audit firms do provide other services in addition to auditing. Audit services account for about 31% of the firms' total income. This implies that the majority of income comes from non-audit services. This appears to be the trend elsewhere. In the USA for example, consulting and management advisory services now represent 50% of the revenues of the five largest firms (Levitt, 2000).

The fact that audit firms also provide non-audit services necessitates a consideration of whether there is a need for separating the two functions. It is generally assumed that to enhance auditor independence, audit firms must be organized in a manner that clearly separated auditing from non-auditing work. In other words, a person doing auditing should not do consultancy work. Apparently, only about 20% of the firms are so organized. It is not clear how the remaining 80% are organized. This is vital even if it only serves to enhance perceived independence, and the fact that they are getting substantial amounts from non-audit services makes it affordable to the firms. Separating audit from non-audit work may indeed portray a firm as being concerned with an independent approach to audit work. However, whether the firms are actually perceived as being independent would involve surveying users of financial statements. This is an issue for future research.

Attitude Toward Making Management Decisions for Clients

The results of the study suggest that, on average, audit firms have occasionally had to make some management decisions for their clients. Eight respondents (about 62%) indicated that they made such decisions occasionally. Of these, three respondents (23.1% of the total respondents) indicated that they did make such decisions on a frequent basis.

Respondents were of the opinion that making managerial decisions for their clients was acceptable. Eight firms (61.5%) believed that professional accountancy firms are expected to help their clients attain their objectives, and hence participating in managerial decision-making was very much acceptable. For five of the respondents (36.5%), this was regardless of whether or not the client was one for audit services.

In the case where management decision-making was not supported, the overriding reason given was that it would affect the independence of the auditor. This was the view given by six of the eight firms not participating in managerial decision making for their audit clients. Three respondents (23.1%) thought it was not acceptable to participate in managerial decision making for their client, with one of them suggesting that professional accountancy firms should desist from such practice.

The results are somewhat confusing. The majority of the respondents saw no problem in being involved in managerial decision making for the client, but they also accepted that the practice could affect auditor independence in fact. Perhaps respondents were looking at the other services provided by their firms. It has been established that audit firms provided several other services over and above auditing. Probably the responses were affected by considering the fact that the firm may have clients for services other than auditing, and in that case there was no problem if they made some management decisions to assist the clients to achieve their objectives. In any case, given the small market and the likely competition among the firms, auditors may not have a choice.

Audit Quality Control

Five mechanisms popular with audit firms to ensure quality audit work are summarized in [Table 5](#).

The most widely used quality control mechanism is internal peer reviews: reviews by either other partners or senior partners within the audit firm locally, or by others in sister organizations and even a professional organization. Seven respondents indicated the use of internal peer reviews, two indicated reviews

Table 5. Mechanisms for Ensuring Quality Audit Work.

Mechanism	Firms in Place	% (All Firms)
Partner (peer) review/re-reviews	7	53.8
Adherence to IAS/independence guidelines	4	30.8
Audit Planning (elaborate)/audit programs	4	30.8
Audit staff training/update seminars for audit seniors	4	30.8
Engagement letter	3	23.1

by sister organizations, and one indicated that a professional organization was used. Elaborate audit planning, adherence to internal audit standards and constant staff training and update seminars were seen as other important quality control mechanisms and were the other mostly preferred quality control mechanisms. Four respondents indicated relying on these mechanisms to ensure quality control.

Seven respondents, representing 53.8% of the total respondents, had a lawyer who provided legal advice to the firm, and who handled any other legal matters including potential lawsuits. Two of these seven had a lawyer serving as a full-time staff member. Six firms (46.2%) did not have a lawyer. The absence or infrequency of lawsuits and cost considerations were the major reasons provided for not having a lawyer. It was deemed that such services could, and would, be obtained when the need arose.

It is clear that audit firms have a number of measures to ensure they provide quality audit services to their clients. However, none of the respondents indicated that they insisted on the client establishing an audit committee. According to literature the presence of an audit committee within the client structure is one of the principal factors enhancing audit independence, especially if the committee involved directors external to the client management (Teoh & Lim, 1996). The absence of an indication of the fact that auditors insist that an audit committee be established in the client organization from the list of measures mentioned is thus conspicuous. In the United States, for example, the Cohen Commission has recommended establishing audit committees for all public listed companies (AICPA, 1978). A sensible combination of the measures suggested by the respondents and the requirement that clients establish audit committees in Botswana can provide reasonable assurance of independence.

CONCLUSIONS

This study undertook to establish whether public auditing firms in Botswana routinely provide significant non-audit services to their clients and whether such

services constitute a major source of income to the auditing firms. It also sought to find out whether members of audit firms in Botswana made decisions in concert with management. Finally, the study sought to determine whether audit firms in Botswana have quality control mechanisms in place.

The results suggest that non-audit services are provided on a routine basis and include bookkeeping and other accountancy work, internal auditing and management accountancy work. Others are management consulting and taxation work. We found that income from these services is substantial, with only about 31% generated by audit services.

Auditors occasionally made management decisions for their clients although it was considered acceptable to make such decisions to non-audit clients. However, making such decisions for audit clients was explicitly considered as potentially harmful to auditor independence. It is also evident that audit firms have put in place mechanisms of quality control, although audit committees do not feature among the mechanisms. Apparently, auditors are aware of their professional obligations with regard to professional independence, and they are aware of some of the dangers that can affect their independence.

On the basis of these results, an overall conclusion as to whether the firms are independent cannot be made easily. For one, it is important to distinguish independence in appearance and independence in deed. The former has to do with independence perceptions, which does not necessarily correctly reflect what is actually the case. This might appear to be harmed by the fact that auditors involve themselves with their clients in other ways besides strictly providing them with audit services. But it is also important to bear in mind that audit services are provided by professional accountants. As professionals, auditors are aware of the perils of usurping their clients' responsibilities, especially in relation to decision-making. The fact that the audit firms provide other services to clients emphasizes the professional inclination of the firms' proprietors and of the market place: to provide professional service, and the fact that the Botswana market is small and audit firms are probably left with no alternative than to broaden the scope of services rendered, even to their existing clients for audit services.

What is perhaps important is how the business of a firm is organized such that there does not seem to be a conflict of interest. About 20% of audit firms in Botswana are organized in such a manner that the two services are not seen to be offered by the same people. This enhances the appearance of independence. The fact that the firms have mechanisms to assure quality control is somehow evidence of their concern over perceived independence.

A major weakness of this study is the absence of data from a survey of users of audit reports. This would have given conclusive evidence as to how auditor independence is perceived in Botswana. On the basis of the positions of Engle (1996),

Teoh and Lim (1996), and Beattie and Brandt (1999), it can only be inferred that auditors in Botswana put themselves in a situation in which their appearance of independence can be impaired. However, whether they are independent in fact is difficult to judge and the authors therefore refrain from making a concise conclusion on that.

NOTES

1. Data provided by the Government Statistician, Central Statistics Office, Gaborone, through their letter with reference CSO 8/7 dated 22nd May 2002.
2. At the time of conducting this study the biggest audit firms were five. The number has since gone down to four.
3. "Public accountant", "public accounting firm", "auditor" and "audit firm" are used synonymously in this work. Reference to "public accountant" would mean "auditor" and vice versa. The same applies to "public accounting firm" and "audit firm". "Professional accountants", on the other hand, is used mostly to refer to non-auditing accounting firms and accountants not so engaged, i.e. those employed by non-audit firms.
4. APC (1980). *Auditing Standards and Guidelines: Explanatory Foreword*, paragraph 2. Auditing Practices Committee. As cited in Dunn (1996, p. 6).
5. As cited in Gray and Manson (2000, p. 52).
6. As cited in Gray and Manson (2000, p. 52).
7. Auditors have since been barred from providing MAS to audit clients in Nigeria (Addo-Nkrumah, 1998).

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