

# **The determinants of auditor's independence: the case of small audit firms in Tanzania**

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Professional standards require auditors to be independent in their performance of their attestation services. Critics of accounting profession have expressed concern that pressure to develop and maintain clients may erode auditor's objectivity and independence especially when a judgment is required. It is urged that due to the fact that professional auditing firms earn a living from audit fees for their service delivery, it is obvious that they do not want to do anything to jeopardize their income. As auditors strive to keep their existing clients and attract new ones in order to maintain and grow their business they run a risk of compromising their independence. The main objective of this research was to explore the determinants of auditor's independence in small audit firms in Tanzania. Data was collected from 53 respondents, comprising of 25 small audit firms, 25 audit clients and 3 of the "big 4" audit firms. The researcher used close and open ended questionnaires in collecting data. The results from the respondents were corroborated with one to one interview held with senior audit practitioners. The findings revealed that small audit firms in Tanzania are not independent due to the fact that they practice a limited partner's rotation, presence of client's pressure on auditors and widespread practice of reducing audit fees during the initial engagement in order to win the assignments. It was further found out that, small audit firms do get unduly large proportion of their gross income from a single or an assortment of clients together, hence a threat to their independence. In order to alleviate the problem of auditor's independence, the researcher suggests that NBAA should update its code of conduct to include the contemporary auditor's independence issues especially those relating to ethics and moral standards. Also NBAA should concentrate on raising and improving the required disclosures transparency and governance around the subject of audit fees. There is also a need for auditors to improve on their moral capacity in conduct of professional engagement with clients.