



**The Mediating Effect of Internal Environment Threats on the
Relationship between Non-Audit Services and Auditor
Independence in Lebanon**

by

Nour Alzahraa Mohamad Zahr

Thesis

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Supervised by

Prof. Wagdi Hegazy
Professor of Accounting and Auditing
Head of Accounting Department
Faculty of Business Administration
Beirut Arab University

Dr. Mohamed Mandour
Associate Professor of Accounting
and Auditing
Faculty of Business Administration
Beirut Arab University

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Abstract

After the scandals that had occurred especially Enron's scandal, the issue of auditor independence has been given much importance and the provision of non-audit services to audit clients has become controversial. Nowadays, the ethical behavior of auditors, which includes preserving independence and objectivity, has become the concern of the different users of audited financial statements, especially when auditors provide non-audit services to their audit clients. Auditor independence is classified into actual and perceived independence. This research investigates the effect of the non-audit services provision to audit clients on perceived auditor independence and the influence of the internal environment threats on this relationship in Lebanon. The internal environment threats studied include the existence of an independent audit committee, the audit client size, the audit client's financial condition, the audit firm's ethical culture, and the audit firm size.

Data were collected through sending questionnaires by emails to the Lebanese professional accountants registered at the Lebanese Association of Certified Public Accountants, who are classified as practicing members, and interpreted through SPSS statistical software. Based on the regression analysis, the results show a significant positive effect of the provision of non-audit services to audit clients on perceived auditor independence, in addition to its significant positive association with the existence of an independent audit committee, and with the audit client size. Moreover, the findings indicate that the existence of an independent audit committee and the audit firm's ethical culture have a significant positive influence on perceived auditor independence. According to the mediation analysis, the existence of an independent audit committee is found to be a mediator between the provision of non-audit services to audit clients and perceived auditor independence.

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