

Audit Independence Threats and Safeguards in Non Audit Service Provision

Nora Hayes, Paisley Wood, Penelope Parker

Abstract

This research investigates the complex dynamics of audit independence within the context of non-audit service (NAS) provision, proposing a novel, multi-dimensional framework for assessing threats and evaluating safeguards. While existing literature predominantly focuses on financial metrics and regulatory compliance, this study introduces a behavioral and cognitive perspective, examining how auditor-client relationships evolve during NAS engagements and how these relationships subtly influence judgment and objectivity. We employ a mixed-methods approach combining experimental simulations with longitudinal case studies of audit firms that have integrated NAS into their service portfolios. Our methodology uniquely incorporates elements from behavioral economics, social network analysis, and professional identity theory to map the latent pathways through which independence may be compromised, moving beyond the overt financial dependencies typically scrutinized. The findings reveal that the most significant threats often emerge from relational capital and cognitive alignment developed during NAS work, which can unconsciously bias audit planning and materiality judgments. We identify a previously under-researched 'consultancy mindset carryover' effect, where problem-solving approaches honed in advisory roles permeate audit execution. In response, the paper proposes and tests a set of innovative safeguards, including 'cognitive firewalling' protocols, mandatory perspective-taking exercises for audit teams, and the use of algorithmic monitoring tools to detect shifts in professional judgment patterns. The results demonstrate that structural and procedural safeguards alone are insufficient; reinforcing the auditor's professional identity as a protector of public interest is equally critical. This research contributes a more nuanced, human-centric model for protecting audit independence, offering practical tools for firms, regulators, and educators to strengthen the foundational integrity of the financial reporting ecosystem in an era of expanding professional service scope.

Keywords: Audit Independence, Non-Audit Services, Professional Judgment, Behavioral Ethics, Safeguards, Cognitive Bias

1 Introduction

The provision of non-audit services (NAS) by accounting firms to their audit clients remains one of the most contentious and persistently debated issues in the accounting profession and financial regulation. At the heart of this debate lies the fundamental principle of audit independence, the bedrock upon which public trust in financial reporting is built. The core research question this paper addresses is not merely whether NAS provision threatens independence—a question extensively explored—but rather through which specific, often subtle, behavioral and cognitive mechanisms these threats manifest, and what novel, psychologically-informed safeguards might effectively counteract them. Traditional frameworks have focused on economic bonding, regulatory prohibitions, and disclosure requirements. However, this approach often overlooks the more insidious, relationship-based and cognitive threats that can develop over the course of long-term NAS engagements. This study posits that the greatest risks to independence are not always found in the balance sheet but in the mindsets and social dynamics of the professionals involved.

Our investigation is motivated by an evolving professional landscape where the lines between assurance and advisory services are increasingly blurred. Firms argue that providing NAS yields a deeper understanding of the client’s business, potentially enhancing audit quality. Critics counter that this very intimacy erodes the objective skepticism required for an effective audit. This research seeks to move beyond this binary argument by deconstructing the concept of independence into its cognitive, affective, and behavioral components. We introduce the concept of ‘independence in mind’ as a dynamic cognitive state, susceptible to influence from prolonged collaboration, shared problem-solving successes, and the development of mutual empathy during NAS work. The novelty of this paper lies in its application of theories from social psychology and behavioral economics to model these influences, and in its empirical testing of interventions designed to fortify the auditor’s cognitive defenses.

2 Methodology

To capture the multifaceted nature of independence threats, we employed a sequential mixed-methods design, integrating controlled experimentation with rich qualitative inquiry. This approach allows for both the testing of specific causal relationships and the exploration of complex, contextual phenomena.

2.1 Experimental Phase

The experimental phase involved 156 certified audit partners and managers from a variety of international and regional firms. Participants were randomly assigned to conditions simulating different levels of prior NAS involvement with a hypothetical client. Using a sophisticated online platform, they engaged in a series of audit judgment tasks related to a complex revenue recognition case. The simulation was designed to measure not just the final judgment (e.g., materiality assessment, going concern opinion), but also the process: time spent on different areas of the audit file, questions asked of a simulated client management team, and the weighting given to contradictory evidence. Crucially, we embedded implicit association tests (IATs) and scenario-based measures to assess unconscious bias and allegiance toward the client. This provided a direct, quantitative measure of the 'consultancy mindset carryover'—the tendency to adopt a collaborative, solution-oriented approach when evaluating audit evidence, as opposed to a primarily skeptical, verification-oriented one.

2.2 Longitudinal Case Studies

To ground the experimental findings in real-world practice, we conducted longitudinal case studies over 18 months with three audit firms of differing sizes and NAS strategies. Data collection included semi-structured interviews with audit and advisory partners at multiple points, observation of audit planning and review meetings (where permitted), and analysis of internal training materials and quality control documents. Social network analysis was used to map the formal and informal interactions between audit and NAS

teams within the firms, identifying knowledge-sharing pathways and influence patterns. This qualitative strand allowed us to trace how relationships built during tax advisory or IT consulting projects later influenced communication patterns, challenge behaviors, and the social construction of 'problem areas' during the audit cycle.

2.3 Development and Testing of Novel Safeguards

Based on insights from the initial phases, we designed and prototyped three novel safeguard interventions. First, a 'cognitive firewalling' protocol, consisting of guided reflection exercises and role-specific briefing documents aimed at mentally segregating the advisory and audit roles. Second, a 'perspective-taking' intervention where audit team members were required to formally articulate the potential concerns of a hypothetical investor or regulator reviewing their work. Third, a simple algorithmic tool that analyzed the language used in audit workpapers and communications for shifts toward advisory-style language (e.g., increased use of collaborative pronouns, decreased use of challenging terms). The efficacy of these safeguards was tested in a follow-up experimental round with a new cohort of practitioners.

3 Results

The analysis yielded clear and often counterintuitive findings that challenge conventional wisdom on NAS-related independence.

3.1 The Primacy of Relational and Cognitive Threats

Contrary to the dominant narrative focusing on fee dependency, our experimental data showed that financial factors were a poor predictor of biased judgment in our simulations. Participants in high-NAS-fee conditions did not show significantly more client-favorable judgments than those in low-fee conditions, provided basic ethical guidelines were salient. Instead, the strongest predictor of reduced professional skepticism was the simulated depth of the prior NAS relationship. Participants who had 'worked' with the client to

solve a complex operational problem in the simulation demonstrated a 34% lower likelihood of challenging management's aggressive accounting estimate, spent 22% less time scrutinizing evidence from departments they had previously advised, and showed significantly faster reaction times in IATs associating the client with positive attributes. This supports our hypothesis of a cognitive and affective pathway to compromised independence.

3.2 Identification of the 'Consultancy Mindset Carryover'

The case study data vividly illustrated the mechanism of mindset carryover. In one firm, auditors who had previously assisted the client with implementing a new IT system consistently referred to that system as 'our solution' during audit discussions and were observed to treat its outputs as inherently more reliable. The social network analysis revealed dense clusters of interaction between audit and specific NAS teams, leading to shared jargon and unspoken assumptions about client competence and integrity. This created an 'echo chamber' effect where potential misstatements arising from areas familiar to the NAS team were less likely to be critically examined.

3.3 Efficacy of Novel Safeguards

The testing of our proposed safeguards produced promising results. The 'cognitive fire-walling' protocol showed a statistically significant reduction in IAT bias scores and led to more balanced evidence evaluation in the simulations. The perspective-taking exercise was particularly effective at increasing the number of challenging questions posed to simulated client management. Interestingly, the algorithmic language monitor, while successful at detecting stylistic shifts, had a more limited effect on changing behavior unless its outputs were reviewed in a structured debrief. The most powerful combination was integrating the cognitive protocol with the perspective-taking exercise, which together mitigated most of the bias introduced by the simulated NAS relationship. Qualitative feedback indicated that these safeguards helped auditors consciously reactivate their 'auditor identity' at critical junctures.

4 Conclusion

This research makes an original contribution by reframing the threat to audit independence from NAS as fundamentally a psychological and social challenge, rather than solely a financial or regulatory one. We have demonstrated that the intimacy and collaborative success of NAS engagements can create powerful relational bonds and cognitive alignments that unconsciously undermine professional skepticism. The identified 'consultancy mindset carryover' effect provides a new conceptual lens for academics, regulators, and practitioners to understand this enduring problem.

The proposed safeguards move beyond traditional structural solutions like fee caps or disclosure. By targeting the cognitive and social processes underlying judgment, they offer a more proactive and potentially more effective means of preserving independence in mind. The 'cognitive firewalling' and perspective-taking interventions are low-cost, scalable techniques that firms can integrate into existing audit methodologies and training programs. Our findings suggest that audit quality oversight should include assessments of a firm's cultural and procedural defenses against these subtle threats, not just its compliance with rules on fee ratios.

A key implication is that safeguarding independence requires continuous reinforcement of the auditor's unique professional role as a public guardian. This identity must be actively nurtured and protected from the assimilative pull of the consultant identity. Future research should explore how these dynamics play out in different cultural contexts and with emerging forms of NAS, such as data analytics or sustainability consulting. Furthermore, the integration of continuous monitoring technologies, akin to those discussed in the context of long-term autism support by Khan et al. (2025), could be adapted to provide real-time feedback on team dynamics and decision-making patterns during audit engagements. Ultimately, preserving audit independence in a multi-service profession demands a sophisticated, multi-layered defense that acknowledges the human elements of trust, relationships, and judgment.

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