



AUDITORS' INDEPENDENCE: A STUDY OF INTERNATIONAL SCENARIO VIS-A-VIS INDIAN SITUATION

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ABSTRACT

Auditors' independence refers to the independence of the external/ statutory auditors. The basic definition of audit is 'independent appraisal of accounts by third party'. Therefore, the two terms 'audit' and 'independence' are inseparable. Auditors' independence is necessary not only for the purpose of obtaining assurance on the financial statements, but also to prevent financial misstatement/ fraud. The recent corporate scams in India and abroad have demonstrated that lack of auditors' independence played a major role for occurrence of those scams. The lack of independence of the auditors is widely debated and it is very often questioned whether in actual practice there is independence or not. The auditor should be independent from the client company, so that the audit opinion will not be influenced by any relationship between them. The auditors are expected to give an unbiased and honest professional opinion on the audited financial statements presented to the shareholders of a company.

In the above background this paper tries to make a survey of the international scenario in respect of auditor-independence. This paper is divided into eight sections: 1: Introduction, 2: Research Methodology, 3: Objective of the Study, 4: Theoretical Framework of Auditors' Independence, 5: International Scenario of Auditors' Independence, 6: Indian Situation, 7: Conclusion 8: Limitations of the Study.

KEY WORDS- Auditor, Audit Opinion, Auditor Independence, International Scenario.

1. INTRODUCTION

Auditors' independence refers to the independence of the external auditors. The basic definition of audit is- independent appraisal of accounts by third party. Therefore, the two terms 'audit' and 'independence' are inseparable. Auditors' independence is necessary not only for the purpose of obtaining assurance on the financial statements, but also to prevent financial misstatements/ fraud. The recent corporate scams in India and abroad have demonstrated that lack of auditors' independence played a major role for occurrence of those scams. The lack of independence of the auditors is widely debated and it is very often questioned whether in actual practice there is independence or not. The auditor should be independent from the client company, so that the audit opinion is not influenced by any relationship between them. The auditors are expected to give an unbiased and honest professional opinion on the audited financial statements to the shareholders of a company. The international regulatory bodies like International Federation of Accountants (IFAC) and the governments of different countries have made provisions so that the auditors can function independently. It may be mentioned here that IFAC issues ethics for professional accountants of the world at large. The main question is whether there is

2. RESEARCH METHODOLOGY

This is a conceptual study based on secondary data which were collected from Books, Journals, Websites, Documents, Reports, Ph.D. thesis, Acts, Regulations etc.

3. OBJECTIVES OF THE STUDY

- (i) To study the theoretical framework of auditor independence.
- (ii) To study regulatory provisions regarding auditor independence of some developed countries.
- (iii) To make comparison with Indian provisions on auditor independence.

4. THEORETICAL FRAMEWORK OF AUDITORS' INDEPENDENCE

An audit is an independent appraisal of the financial records, accounts, business transactions, accounting practices, internal control and applicable rules and regulation of an entity.

The main purpose of an audit is to give independent opinion as an expert, whether the financial statements of the company give a true and fair view of the financial position of the company and whether they can be relied upon. Auditor's independence refers to conduct of audit by the auditor without being influenced by the management of auditee company. According to Kane (1953) an auditor must fulfill his duties

even if it results in conflict of interest with the management of the company which employed him. Sometimes he may lose his assignment also. This requirement is unique to this profession. Users of financial statements need accounting information regarding performance and financial position of a company that is reliable. Need of independence of auditor flows from this fact. Only true independence of auditor can ensure effectiveness of audit. Auditor's independence is of two types- conceptual and rule-based. These are discussed in the following paragraphs.

Conceptual basis for a framework for auditor independence

The Financial Accounting Standards Committee of the American Accounting Association believes the following characteristics should underlie a conceptual framework for auditor independence. These characteristics are - (A) characteristics of persons associated with or affected by auditor independence, (B) characteristics related to consequences of auditor independence, and (C) characteristics related to the evaluation of auditor independence.

(A) Characteristics of persons associated with or affected by auditor independence

(i) The framework should recognize that independence resides in persons. An independence framework should distinguish the auditor from his/her firm and should acknowledge that the individual auditor faces incentives and penalties that may differ from those facing the audit firm as a whole.

(ii) The framework should recognize that the entity whose financial reports are the subject of the audit is not a natural person (i.e., the client) with a unique state of mind.

(iii) The framework should recognize that the benefits of auditor independence depend on the perceptions of individuals who rely on auditors' decisions. These perceptions include both those related to various factors that create and mitigate bias in auditors' decisions and those related to the importance of independence to the overall quality of auditors' decisions.

(B) Characteristics related to consequences of auditor independence

(iv) The framework should recognize that the relevant consequence of auditor independence is its effect on auditors' decisions.

(v) The framework should acknowledge that auditor independence has both benefits and costs. Such an approach would recognize that auditor independence is not an objective in and of itself, but is desirable if it improves the quality of auditors' decisions and the decisions of individuals who rely upon auditors' decisions.

(vi) The framework should recognize that the quality of auditors' decisions is influenced by both their independence and competence (expertise). Specifically, in the assessment of the benefits and costs of auditor independence.

(C) Characteristics related to the evaluation of auditor independence

(vii) The framework should evaluate auditor independence in terms of observable factors that are likely to influence whether an auditor's decisions are unbiased, rather than in terms of unobservable factors, such as an auditor's state of mind.

(viii) The framework should evaluate an auditor's independence in terms of a continuum (i.e., the degree of independence), rather than as a dichotomous variable (i.e., an auditor is either independent or not independent).

According to IFAC, independence is of two types- (i) independence of mind and (ii) independence in appearance.

PCAOB of USA also has issued documents on the concepts of independence of auditor. Detail discussion has been made on this in the next section.

5. INTERNATIONAL SCENARIO OF AUDITORS' INDEPENDENCE

Independence of auditors is a key issue to all countries in the world. Every country strives to make provision for ensuring independence of auditors. We have studied the auditor independence scenario of some countries discussed in the following paragraphs:

5.1 IFAC Document

The International Federation of Accountants (IFAC) is an international regulatory body which serves public interest by contributing to the development of strong and sustainable organization, market and economics. It advocates for transparency, accountability and comparability of financial reporting, helps develop the accounting profession, and communicates the importance and value of accountant to the global financial infrastructure. Founded in 1977, IFAC is currently comprised of more than 175 members and associated in more than 130 countries and jurisdiction.

IFAC has issued the Code of Ethics for Professional Accountants several times, latest being 2016 edition. In Section 290 (having 512 sub-sections) of the said document it discusses *Independence in Audit and Review Engagements* of the professional accountants in public practice. In sub-section 6 of section 290 describes the term 'Independence' as follows:

Independence of mind- it is that mental condition of the auditor where the auditor is not influenced from any corner while expressing his professional judgment, i.e. he can express his opinion with free mind, and

Independence in appearance- the auditor will have to avoid those facts & circumstances which may create doubt in the minds of the third parties about the auditor's integrity, i.e. third parties may draw conclusion that the auditor has compromised professional skepticism.

As per Sub-section 7, auditors have to- (i) identify the threats which may affect independence, (ii) assess the significance of the identified threats, and (iii) devise safeguards to eliminate/ reduce threats to a level which is acceptable.

Sub-section 102 to 226 identify threats under the following heads- Financial Interest, Loans & Guarantees, Business Relationship, Family & Personal Relationship, Employment with an Audit Clients, Temporary Staff Assignments, Recent Service with an Audit Clients, Serving as a Director or Officer of an Audit Clients, Long Association of senior personnel with an Audit Clients, Provision of Non-assurance Services to an Audit Clients, Fees, Compensation and Evaluation Services, Gift and Hospitality, and Actual or Threatened Litigation.

The IFAC document is a very important guideline on ethical issues, including independence, for professional accountants all over the world.

5.2 U.S.A.

American Association of Public Accountants (AAPA) was formed in 1887. At that time its byelaws did not have any provision regarding independence of auditors. In 1916, the AAPA was replaced by the Institute of Public Accountants (IPA). In 1917 the name of Institute of Public Accountants (IPA) was changed to American Institute of Accountants (AIA). During the first quarter of twentieth Century, there were debates on independence of public accountants. In 1926 the Committee of the AIA raised the question whether a public

accountant, who has financial interest in a company, should attest balance sheet of that company. Subsequently many articles in journals addressed the issue of independence of auditors, but it was not included in the Rules of Professional Conduct. In 1933 American Institute of Accountants adopted a resolution that the function of an auditor in dual capacity i.e. in the capacity of an auditor as well as in the capacity of a director/ officer of an enterprise is against the interests of the stakeholders, and it impairs the independence of auditors. Independence is an essential condition in the relationship between auditor and client (Younkins, 1983). However action was not taken by the Institute on this resolution.

The concept of independence was not considered as important till the enactment of two Acts namely- Securities Act of 1933 and Securities Exchange Act of 1934. These two Acts were passed after the great economic depression and following share market crash in 1930. These Acts incorporated the requirement of certification of statements / accounts by independent public or certified accountants. In 1933 a Rule passed by the SEC provided that a public accountant will not be considered independent if he has interest, directly or indirectly, in that company in which he is auditor. In 1934 an AIA resolution prohibited a public accountant having substantial financial interest to take up audit of that corporation. In 1937 SEC issued Accounting Series Release No. 2. It provided specific cases where independence is affected. In 1940, AIA adopted a Rule which replaced its 1934 resolution. In 1942 this Rule was amended. Financial interest of his immediate family members was also included for the purpose of determination of independence. Several Accounting Series Release of SEC addressed the issue of auditor independence. Accounting Series Release 47, issued in 1944, discussed 20 cases where auditor's independence was found to be impaired.

In 1947 specific definition of auditor independence was framed by AIA. It defined independence "as state of mind". It emphasized on "independence in fact" rather than "appearance of independence". Since there were much debate on the term "substantial" financial interest prescribed by AIA for assessing independence, SEC deleted the word "substantial" in 1950 from its documents. In the meantime in 1957 the name of AIA was changed to American Institute of Certified Public Accountants (AICPA).

In 1960 Sharaf and Mautz advocated that independence is three dimensional concept- (i) Programming independence (ii) Investigative independence, and (iii) Reporting independence. In 1961 AICPA passed a resolution (based on recommendation of its ethics committee) to prohibit any member from serving as an employee or director of an entity in which he was the auditor or from having any financial interest in such entity. Mautz and Sharaf again in 1961 advocated that management services rendered by auditors impaired their professional independence. The study of Arthur A. Schulte (1963), Abraham J. Briloff (1966) confirmed the opinion of Mautz and Sharaf. In 1967 AICPA appointed a Committee headed by Malcolm M. Devore to make recommendation on this issue. Though the Committee did not find any relation between Management Service and Auditor Independence, but it made several important recommendations including the role to be played by the Audit Committee in relation to appointment of auditors etc.

Walter Kell (1968) prescribed that management services should be segregated into "accounting" and "administrative"

services. According to him accounting service does not hamper independence but administrative service hampers.

In 1973, the responsibility of issuing Accounting Standards was transferred to Financial Accounting Standard Board (FASB) from the hands of AICPA. FASB is an independent body, and it was expected that its work would enhance the public confidence on financial statements.

The Public Oversight Board (POB), formed by AICPA in 1977, was an independent private sector body to oversee SEC Practice Section. Its role was to oversee and report on the work of the auditors who were registered with Securities Exchange Commission (SEC). It issued reports like- *In the Public Interest: Issues confronting the Accounting Profession* (1993), *Strengthening the Professionalism of the Independent Auditor* (1994) etc. In 1998 POB appointed a Committee on Audit Effectiveness. The Committee submitted its report in 2000. In addition to its regular duties, the POB's main activities in 2001 and 2002 were implementation of the recommendation of the Committee on Audit Effectiveness. In 1999 SEC requested POB to undertake special review of SEC Practicing Section Firms. This special review of POB was stopped due to cutoff of funding to the POB. Later on when this review was started again, it received poor response from the accounting firms. In this background POB voted to terminate the existence of POB in January 2002.

Two major Acts i.e. The Federal Deposit Insurance Corporation Improvement Act, 1991 and Private Securities Litigation Reform Act 1995 enhanced the role of independent auditors in relation to reporting on financial Statements. GAO (Government Accountability Office) Report of 1996 discussed five major issues including 'Auditor Independence'.

During late 1990s, SEC apprehended that auditor independence had deteriorated. SEC identified that consultation service was the major reason for such deterioration. In 1998 SEC chairman observed that Audit Committee "... represent the most reliable guardians of the public interest". Based on the report of a Committee, SEC issued a Rule in 1999 which prescribed that a report to be included by the Audit Committee after discussion with the independent auditors about their independence. In 2000, SEC made amendment of their independence rule and prohibited internal audit service and Information Technology service by the independent auditors.

In this background an Independence Standard Board (ISB) was constituted as result of agreement between AICPA and SEC in the year 1997. In 1999 Independence Standard 1: *Independence Discussions with Audit Committees* was issued by the ISB. ISB was virtually controlled by AICPA. That is why SEC was dissatisfied with the functioning of ISB. ISB started to develop some documents. But before finalization of those documents, ISB was discontinued in the year 2001 (<http://www.sechistorical.org/museum/galleries/rca/rca05f-short-lived-isb.php> accessed on 12.02.2018).

In the background of discontinuation of Public Oversight Board (POB) and Independence Standard Board (ISB), and so called accounting fraud of Enron (2001) and WorldCom (2002), The Sarbanes-Oxley Act (SOX) was passed by US Congress in 2002. The Act was passed to increase the responsibilities of boards of directors, corporate managers and auditors of an entity in connection with financial reporting. The main purpose of SOX Act was to increase confidence of investors on the financial reports of corporate entities. The Act has devoted nine sections (201 to 209) on Auditor

Independence, which prescribes dos and do not's for public accounting firms.

The Act also provided for creation of a Public Companies Accounting Oversight Board (PCAOB). PCAOB is has very important role in overseeing the audit function of listed enterprises to protect the interest of stakeholders by ensuring proper and independent audit reports (<https://pcaobus.org/About>). Earlier oversight job was done by the AICPA itself internally. With the establishment of PCAOB, now for the first time the oversight job was entrusted to an external independent agency. The functions of PCAOB are- (i) to register public accounting firms (ii) to set standards on auditing, ethics, independence, quality control, attestation and other standards, (iii) to conduct inspection of registered public accounting firms; (iv) to perform such other functions as deemed necessary by the Board to achieve its objectives. (https://en.wikipedia.org/wiki/public_Company_Accounting_Oversight_Board) The Board has till now issued many Standards/ Rules. These Rules are framed by PCAOB and approved by SEC. Rules on 'Ethics and Independence' consists of nine Rules- 3501 to 3526 (<https://pcaobus.org/standards>). Research has shown that PCAOB is doing a very good job.

5.3 Canada

Canada's audit oversight institutional framework has been strongly influenced by the division of powers between the federal and provincial jurisdictions under its federal constitutional system. In Canada, the Canadian provinces and territories are responsible for securities regulation. To ensure a national approach to the oversight of the audits of publicly listed entities, the Canadian Securities Administrators (CSA), the Canadian Institute of Chartered Accountants (CICA) and the Federal Superintendent of Financial Institutions created the Canadian Public Accountability Board (CPAB) in 2003. The CPAB is a federal not-for-profit corporation. It was not possible to establish CPAB as a statutory body because of the federal-provincial jurisdictional arrangements in Canada.

Canada has adopted a combination of a principles-based and rule-based approach to ensure independence of auditors. Auditors must identify threats. If threats are material, they will either take steps to reduce those threats to an acceptable level or will refuse to continue the audit engagement if reduction of threats is not possible. Most of the conflicts in auditor's independence arise when the auditor provides non-audit services to his clients. Canada prohibits providing non-audit services by the auditor of the same company. In Canada, proper combinations of rules & prohibitions and threats & safeguards, have created an effective ground for independence of auditors. (<https://www.cpacanada.ca/-/.../enhancing-audit-quality-Canadian-perspectives-auditor-independence-summary-of-responses-to-the-discussion-pap...> accessed on 31.3.18)

5.4 United Kingdom

The UK's financial sector has been the subject of frauds and crisis during every decade since the 1970s. The crisis has been fuelled by neoliberal ideologies which emphasise light-touch regulation, individualisation, excessive faith in markets and pursuit of private profits, with little regard for social consequences. Auditors are expected to flag matters of concern to shareholders and regulators. The general setting within which audit decisions are made and independence perceptions are formed is evolving rapidly due to competitive and

regulatory changes. Policy-makers must work continuously to evaluate the critical threat factors and develop appropriate independence principles. The European Union (EU) is trying to establish a common set of independence principles. The potential of recent regulatory reforms in the United Kingdom, many of which are unique to that country, are to strengthen the independence framework. UK legislation (the Companies Act 2006) requires Institute of Chartered Accountants of England and Wales and others to adopt, in the matter of auditor independence, the Ethical Standards issued by the Auditing Practices Board (APB) for Auditors – now the audit and assurance function of the Financial Reporting Council (FRC). Therefore, while performing audit function in accordance with the ISAs (UK and Ireland), auditors are required to comply (by S290 of the ICAEW Code) with the requirements of the APB's Ethical Standards. According to APB, its Ethical Standards are more restrictive than that of the *International Ethics Standards Board for Accountants* (IESBA) (and therefore ICAEW) Code.

The UK framework for independence adopts an integrated principles-based approach. (This differs from the approach taken by the SEC where the four principles set out are not actually part of the rules themselves). The said framework recognizes threats and safeguards with respect to independence. Subsequently, European Commission's (2001) and IFAC's (2001) frameworks took similar stand on threats & safeguards. However, the frameworks made distinction between independence in fact & independence in appearance, and gave emphasis on independence in appearance. Five main threats to independence were identified by UK, EC and IFAC.

The Institute of Chartered Accountants in England and Wales (ICAEW) has a Code of Ethics for their members based on a set of rules that require accountants to evaluate and address threats to independence. The ICAEW has revised its Code of Ethics, effective from January 1, 2001. (eprints.gla.ac.uk/482/1/Audrisk21June_03.pdf accessed on 29.3.18). This revision is based on the code of the IESBA of IFAC. It may be mentioned here that the ICAEW is a member of IFAC. The salient features of codes of ethics are:

1. The Code is of much importance to the chartered accountants in their every professional activity. The conceptual framework contained in Part B of the Code applies not only to General Application but also in case of certain public practice of the professional accountants.
2. Auditor independence is described in Part B of the Code (Section 290). It prescribes that the members of the Institute shall comply with the APB's Ethical Standards while conducting audits in the country.
3. The Code also provides guidelines for non-audit services to a client by the professional accountants in the line of the IESBA code. (<https://www.icaew.com/membership/regulations-standards.../code...b/part-b-290> accessed on 29.3.18).

5.5 Australia

Australia has a federal constitutional system. It has been able to achieve a national system of corporation regulation as a result of an agreement between the Australian Government and the Governments of the States and Territories involving the referral of powers to the Federal Government. Another important feature is that the Federal Parliament has made provision in the Corporations Act detailing the requirements for independence of the Australian auditors. Australia, as well as USA, has adopted common standard of auditor

independence which incorporates both the concepts of independence of mind and independence in appearance. The Australian general requirements and Securities Exchange Commission's (SEC) requirements of auditor independence are very close to each other.

The Australian Accounting Standards Board, and the Auditing and Assurance Standards Board of the Australian Accounting Research Foundation are responsible for the development of financial reporting and auditing standards and guidance, respectively. The professional bodies, CPA Australia and The Institute of Chartered Accountants establish the ethical rules and professional requirements. These requirements recognize that the objectives of the accountancy profession are to work to the highest standards of professionalism; to attain the highest levels of performance; and generally to meet the public interest requirement. Australia has not imposed a legislative ban on non-audit services. (https://archive.treasury.gov.au/.../Australian_Auditor_Independence_Requirements.pdf accessed on 28.3.18).

5.6 Japan

Historically, the audit profession in Japan developed under strong government leadership over the last fifty years in order to promote sound development of the Japanese capital market. The first group of professional accountants in Japan is said to have emerged around 1907, but it was not until 1927, when the Accountants Law was enacted, that a fledgling institute of professional accountants came into existence. However, the formal institutionalization of the profession had to wait for the enactment of the CPA Law (as amended) in July 1948. The Japanese Institute of Certified Public Accountants (JICPA) started in 1949.

The establishment of JICPA was made under the CPA Law (Article 43, (1) of the CPA Law). JICPA is the only professional accounting body in Japan. It was originally formed in 1949 as a voluntary body, and was reorganized in 1966 into its present form requiring every CPA in practice to become a member of the Institute. The most important role of JICPA is to keep a register of CPAs. (<https://www.albany.edu/acc/AccountDptmt/Research/pacificrim/japan.html> accessed on 31/3/2018)

JICPA develops the Code of Ethics for its members. In 2000, JICPA's annual assembly approved a revision of the Code of Ethics that was proposed by the Enhancement of Professional Ethics Project Team in JICPA. The new Code of Ethics -"Code of Ethics for Professional Accountants" (revised in 1998) is harmonized with the code of the International Federation of Accountants (IFAC). Further development of the Ethics Code is under way in the newly established Independence Study ad-hoc Committee, in order to reflect IFAC's new principle-based independence rules, which were announced in 2001. The Code of Ethics prescribes that "Certified Public Accountants have a duty to perform their work with professional competence, integrity and objectivity to benefit the public interest and to contribute to the development of a sound society as professionals in auditing and accounting," and requires CPAs to have integrity, objectivity, professional competency, due care, confidentiality and professional behavior. (<https://www.coursehero.com/.../3-3-The-Code-of-Ethics-JICPA-develops-the-Code-of-Ethics-for-its-members-In/> accessed on 28.3.18)

5.7 China

In light of the global economy, China has performed a series of financial reforms. The latter are different from these

undertaken in Eastern Europe that mainly copied and applied western-style market systems. The work undertaken in the country is more experimental and it has aimed at improving performance rather than thoroughly changing the financial system. China's reform path is more akin to grow out of the reform plan (Naughton 1994). In China, accounting profession was established in 1918. Four Chinese CPA firms were founded in the 1920s and until 1947 there were 3,356 registered professionals in the country (Gensler and Yang 1996). (citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.675... accessed on 26.3.18)

However, after the revolution of 1949, the role of auditing in the national economy significantly changed. The socialist government established a single "publicly owned" economy, centralized business management, and controlled all economic resources. By 1956, the audit practice had been replaced by a system of specialist supervision and internal accounting control (Xiao *et al.* 2000). After the economy was nationalized in 1962, the audit function performed by public accountants was annulled (Gensler and Yang, 1996). In 1970 China followed the Soviet model. However, the implementation of this crude system failed to reflect and capture the complex nature of modern transactions and the contemporary business concept of the accounting system. A group of badly trained professionals performed the detailed recording of transactions. These professionals were the first accountants in the country with no related education and/or appropriate training (Graham 1996). Till the early 1990s, the audit practice was still directed and regulated by the State. There are two organizations reporting separately to the Council of the State. One is the Ministry of Finance and the other one is the State Audit Administration (Winkle *et al.* 1994). The auditing system in China has, in very few occasions, served the purposes of financial position reporting. The system was employed instead to collect data that were used to monitor compliance with State aims and for tax purposes (Lau and Yang 1990).

The numerous regulations introduced by the government with regards to the Chinese financial system require the involvement of independent auditors in order to implement the associated economic measures (Tang *et al.* 1992). The first stage in audit reforms started in the 1980s. Following economic advancement, foreign investors entered the Chinese market mostly in the form of joint ventures. The foreign enterprises had a different capital structure from the domestic (state-owned) ones. Thus, the 1985 Regulation was established with the purpose to harmonize the Chinese reality with the international practice by formulating financial reporting (Chow *et al.* 1995). The 2nd phase was started in the beginning of 1990s. With the establishment of the Shenzhen Stock Exchanges (SZSE) and the Shanghai Stock Exchanges (SSE) China completely changed its accounting system. To improve auditor independence, the Chinese government adopted three sets of auditing standards in 1995, 1997 and 1999 respectively. These standards were patterned after the International Auditing Standards (IAS). (https://www.researchgate.net/.../44444753_Main_Principles_and_Practices_of_Auditing_Independence_in_China:_A_Multifaceted_Discussion)

5.8 Poland

In 1957 the institution of audit experts was created to verify accounts of state-owned enterprises, as each enterprise had to appoint a state-authorized accountant (SAA). They were employed on a full-time basis in the finance and/or

accounting divisions of state enterprises. The role of the SAAs was agreeing appropriation of profits and verification of the achievements of centrally planned targets (Jaruga *et al*, 1996; Jaruga, 1979). (*citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.466.4600&rep=rep1...accessed on 28/3/18*)

Annual and five-year plans were extremely complex and detailed. The immediate problem for the SAAs was a difficulty in the arithmetical and technical reconciliation of targets. While inspecting the accounts, the SAA was concerned with the proper construction of the accounting records; that is, with a usage of the appropriate documentation and the correct accounting procedures. The audit was focused on certifying the agreement of financial statements with the law through the means of certificates of correctness (Ministry Decree 1973) ensuring that all procedures were correctly followed and the enterprise had correctly accounted for all transactions with the state budget (Kosmala MacLulich, 2003).

Auditor independence in Poland is regulated by the provisions of the Accounting Act 2000, the Audit Act 2000 and the Code of Ethics 1999 of the Chamber of Auditors. Auditing procedures are dealt with in the national standards and guidelines, not in the Audit or Accounting Acts. All laws related to audit are prepared in collaboration between the Chamber and the Ministry of Finance. In issues unregulated by the national standards, the International Standards on Auditing are followed. (*citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.466.4600&rep=rep1Accessed on 28/3/2018*)

6. INDIAN SITUATION

In India not much emphasis was given on auditor independence. The Companies Act, 1956 had some provisions to safeguard the independence of company auditors in India. This Act maintained double standard on the issue of auditor independence. Whereas auditors of Government companies are appointed by Comptroller and Auditor General (C & AG) on rotational basis (of three years) with full independence, auditor of private sector companies were being appointed by the shareholders (de facto by the company management) in Annual General Meetings without any rotational system, thus having limited independence. Only at the time of removal of auditor by a private sector company, the auditor had some safeguards in the Act of 1956, so that the auditor cannot be removed easily. Also, Section 226 of the said Act imposed barrier on the appointment of a CA as auditor of a Company if he is:

- (a) an employee or officer of the Company;
 - (b) a partner of a person who is employee of an officer or of an employee of the Company;
 - (c) a person who owes to the company an amount in excess of Rs. 1000;
 - (d) a person who is guarantor or security provider to a third party in connection with debt to the company for an amount in excess of Rs. 1000;
 - (e) a person who is holder of any security of that company.
- On the abovementioned grounds if a person is disqualified from becoming auditor of a company, he will be also disqualified to become auditor of such company's subsidiary, co-subsiary or holding company.

Provision related to Audit Committee was incorporated in the 1956 Act in 2000 for some specified companies. The Audit Committee has some indirect role in ensuring independence of auditor.

The Institute of Chartered Accountants of India (ICAI) issued a Guidance Note on Independence of Auditors in 1968. This Guidance Note was revised in 2005. Quoting the IFAC document it states that threats to auditor independence are- (i) Familiarity threats, (ii) Self-interest threats, (iii) Advocacy threats, (iv) Intimidation threats and (vi) Self-review threats. This Note discusses- the provisions contained in the Companies Act, 1956, provisions contained in the Chartered Accountants Act, 1949, Chartered Accountants Regulation 1988 and Code of Ethics which protects the independence of auditors. The Guidance Note concludes that in the opinion of the Council both the Companies Act, 1956 and the Chartered Accountants Act, 1949 have sufficient safeguards so far as auditor independence is concerned.

The claim of the Guidance Note was found to be hollow when the Satyam scandal came to light in 2009 and the auditor (Price Waterhouse) was also found to be responsible and the partner and the audit firm was punished. Lack of independence of the auditor was evident from the facts of the case.

The Companies Act 2013 has made some important changes in respect of auditor independence-

(i) In case of private sector listed companies, auditor shall rotate every five years if auditor is an individual, and every ten years if auditor is a firm.

(ii) Prohibited rendering of eight types of services by the company auditor to its audit client-

- (a) book keeping & accounting
- (b) internal audit;
- (c) financial information system- design and implementation
- (d) actuarial
- (e) investment advisory
- (f) investment banking
- (g) financial
- (h) management, and
- (i) any other prescribed services

(iii) Compliance of Auditing Standards was made mandatory.
(iv) Heavy penalty to be paid by the auditor for non-reporting of fraud

(v) Constitution of National Financial Reporting Authority (NFRA), which is empowered to oversee the quality of service of the professions. It replaces existing National Advisory Committee on Accounting Standards to make recommendations to the Central Government on laying down auditing and accounting standards applicable to companies. NFRA to monitor and enforce compliance with auditing and accounting standards. NFRA will have the power to make orders imposing penalty for professional or other misconduct by the auditors. Also it shall have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908, while trying a suit.

(vi) Power of the Tribunal to remove auditor in case the auditor acted in fraudulent manner.

(vii) Class action suit against the auditor also for misstatement in audit report.

(viii) More power to Audit Committee

(ix) Punishment for fraud in case of misstatement in Audit Report

(x) Responsibility on the auditor to report as to presence of adequate internal financial control and their effectiveness.

(xi) Restricts the number of audits to 20 companies (all total) by an individual auditor

Rule of Professional Conduct formulated by the ICAI and the Chartered Accountant Act play very important role in the matter of ensuring auditor independence. The SEBI Act, 1992 also has various provisions that are aimed at safeguarding independence of company auditor. Clause 49 of the SEBI listing Agreement puts emphasis on better corporate governance & financial disclosure.

One dark side of auditors' independence in relation to Bank Statutory Audit is the Finance Ministry's guidelines stating that bank management can appoint statutory auditors after getting a nominal approval from the Reserve Bank of India. Since the work of the management is being audited, it is highly objectionable to allow choosing one's own auditor. It is like allowing an examinee to choose his own examiner.

7. CONCLUSION

From the study we found that all the countries we studied put emphasis on independence of auditors. It is true that there is variation amongst the countries in this respect. IFAC has issued the Code of Ethics for Professional Accountants, and it discussed the term independence. The IFAC document is a very important guideline on ethical issues, including independence, for professional accountants all over the world. In U.S.A two Acts were passed after the great economic depression and share market crash in 1930, namely Securities Act of 1933 and Securities Exchange Act of 1934 but those Act not consider the concept of independence. In 1947 AIA framed a specific definition of auditor independence. The Sarbanes-Oxley Act (SOX) was passed by US Congress in 2002. The Act has devoted nine sections (201 to 209) on Auditor Independence, which prescribes dos and do not's for public accounting firms. The Act also provided for creation of a Public Companies Accounting Oversight Board (PCAOB). PCAOB is has very important role in to oversee the audits of listed companies.

Canada has adopted a combination of a principles-based and rule-based approach to ensure independence of auditors. Most of the conflicts in auditor's independence arise when the auditor provides non-audit services to his clients. Canada prohibits providing non-audit services by the auditor of the same company. In Canada, proper combinations of rules & prohibitions and threats & safeguards, have created an effective ground for independence of auditors.

The UK framework for independence adopts an integrated principles-based approach. UK and IFAC identified five main threats to independence or objectivity. The Institute of Chartered Accountants in England and Wales (ICAEW) has Code of Ethics for their members. The members have to assess and address threats to independence based on rules framed for the purpose.

Australia, as well as USA, has adopted common standard of auditor independence which incorporates both the concepts of independence of mind and independence in appearance. The Australian general requirements and Securities Exchange Commission's (SEC) requirements of auditor independence are very close to each other.

It is found from the study that Australia and the US have adopted a general standard of auditor-independence incorporating the concepts of independence of mind and appearance. Canada, the EU and the UK have not adopted a general standard of auditor-independence along the lines of the Australian and SEC requirements. The UK framework for independence adopts an integrated principles-based approach.

China, a socialist country, also recognizes the importance of auditor independence. Starting from 1980s it has adopted a series of measures for independence of auditors. Presence of foreign capital in the country has made the government alert in this respect.

The Institute of Chartered Accountants of India (ICAI) issued a Guidance Note on Independence of Auditors in 1968 which was revised in 2005. The Companies Act 1956 had some safeguards to protect independence of auditors. The Companies Act 2013 has made many important changes in respect of auditor independence. It is true that in India not much emphasis has been laid on this issue, in comparison to advanced countries. Particularly the role of GoI in relation to appointment of bank statutory auditors is a reactionary step so far as the independence of auditors is concerned.

8. LIMITATION OF THE STUDY

Our study has some limitations also. Following are the limitations of our study

- a) We considered only eight countries. Taking more countries into consideration for the study will definitely give better picture.
- b) The Study is based on secondary data only.

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