The Conundrum of Auditors’ Independence: Insights from The Practitioners

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Abstract
An economy pre-dominated by corporate scams, financial scandals, roosted financial statements, and overstated profits cannot flourish in the long run. The core responsibility of making sure that the Financial Statements of a company show a ‘true and fair’ view of the Company’s financial position rests on the Auditor. However, when auditors’ independence is jeopardized, there is a chance that their judgment could be swayed by the company’s or other parties’ interests, thereby resulting in the falsification of financial statements. In this backdrop, the current study is an attempt to decipher the reasons that are detrimental to Auditors’ Independence as proposed by the Auditors themselves. The research surveyed 65 Chartered Accountants, 65 Cost Accountants, 25 Academicians teaching audit, investors, and Chartered Accountancy final students to identify factors disrupting auditors’ independence. Based on corporate scams, research papers, and judicial case decisions, 14 variables were identified that determine the reason for auditors losing their independence and conducting unethical client-favoring audits. 14 questions were devised for respondents with Likert 5-point scale where 5 represents strongly agree and 1 as strongly disagree. The mean score of each respondent was taken to determine the degree of agreeableness to each variable. Secondary data, including books, journals, newspaper articles, and lectures, was used to propose remedies and describe the role of Business Spirituality in overcoming ethical dilemmas. Further, this paper also addresses the ethical dilemma faced by an auditor while conducting an honest audit. This paper also tries to find a solution to such an issue using the technique of moral value development and Business Spirituality.

Keywords: Unethical Audit, Ethical dilemma, Business Spirituality, Fact Falsification, Suppression

1. Introduction
Auditing is one of the most dynamic accounting professions which advocate the true financial position of a company. However, the vast scale of corporate scams and money laundering have questioned the authenticity of auditing process and more significantly have brought into limelight the role of auditors as well as their helplessness in context to corporate scandals. The contribution of auditors in suppressing and falsifying facts has concluded in massive scams that have hindered the process of both corporate and social welfare. We are constantly encountering an economy where valuables are being earned at the cost of values. In this backdrop our research focuses on the reasons behind erudite accountants performing unethical auditing and the dilemma they face in deciding whether to be in the good books of the client by preparing falsifying statements favoring the client or practice ethical unbiased auditing. Falsification and suppression of facts not only distort the contribution of the corporate sector towards an economy but when revealed globally creates an ill reputation and questions the trustworthiness of the country. The core solution to such a grave mishap is nothing but Business Spirituality. Business Spirituality is the phenomenon that focuses on the usefulness of a business and looks for causes of volatility despite what looks reasonably calm on the surface. Spirituality reminds of actions and not just outcomes. The constant pressure that an auditor faces to prepare financial statements to suit the client’s uncalled for demand results in a dishonest and unethical outcome.
The auditor becomes so biased in tampering statements to get favorable outcomes that he forgets that his actions are unethical and unjust. Spirituality is one of the tools that will help the auditor to focus on the righteousness of his actions and conclusively contribute in a positive way to his profession and society at large. Based on the techniques of business spirituality and its impact, this paper takes into account the responses of Chartered Accountants, Cost and Management Accountants, and Academicians and is supported by fact-supported personal judgment in providing a solution to the dilemma of an auditor in conducting an honest Audit. Conclusively this paper points out the reason for unethical auditing and proposes suitable remedies in the line of Business Spirituality to prevent and cease unethical auditing and auditor’s dilemma while conducting the same.

2. Review of Literature

Erudite researchers across the globe have recognized the importance of an auditor’s independence in performing an audit. Thibodeau and Freier (2010) in their book analyzed select American corporate accounting scandals and highlighted statutory auditors’ professional responsibilities in them. In each of these cases, the authors identified the major reasons that caused the statutory auditors to compromise their professional judgment (Thibodeau, 2010). According to Roussouw, et al. (2010) and Gwathmoe and Blake (1998), the regulatory framework for statutory auditors does not always address all forms of audit engagement issues (Rossouw & Prozesky, 2010) (Blake & Gowthorpe, 1998). Hence, Rao in this study proposed a constant modification in the regulatory framework is necessary in line with global requirement (Rao, 2009, March). However, Bakshi (2000) in his research focused on proper enforcement of existing regulation (Bakshi, 2000). Global convergence of audit regulations is proposed by Pendergast in his research (Pendergast, 2002, July). It is expected to resolve engagement dilemmas of statutory auditors in cross country audit engagements. Ghosh (1999) in his perception based study concluded that management controls statutory audit operation in a company by controlling their appointment (Ghosh, 1999). According to Beaulieu &Reinstein (2006) provision of non-audit services often influence independent review of audit work (Beaulieu, 2006). It has been established that regulatory framework for statutory auditors does not always address all form of audit engagement (Khan, 2006). A research article by S.S.Saha and M.Roy, 2014 have tried to identify the underlying factors governing statutory Auditor’s independence (Roy & Saha, 2016). In a research article by Ariawan and Made Sudarma, 2016 the authors tried to relate human capital and spiritual capital and its effect in improving organizational performance (Ariawan, Sudarma, Djumahir, & Ghozali, 2016). All these research papers have tried to address the reason of auditors conducting unethical auditing only from auditor’s point of view. Dr. Bartlett offers a significant definition of auditor independence, stating that it is the objective mindset displayed by auditors while making decisions about audit work and financial reporting (Bartlett, 1995). According to Prof. Alleyne's research, the ability of the auditors to reach conclusions about the audit that are objective and free from pressure or coercion is known as their independence (Alleyne & Devonish, 2006). Austin and Herath' study found that the measure of an auditor's independence is "the level of honesty an auditor shows in reporting the financial misstatements prevalent in the financial statements of the company." (Austin & Herath, 2014).The foundation of the auditing profession is auditor independence. Additionally, according to the Independence Standard Board (2000), an auditor's independence is their freedom from demands and other factors that might undermine their ability to make objective audit decisions or could be fairly expected to do so. (Bakr & Ahmad, 2009). In spite of so much of importance of Auditors’ Independence there do exist certain threats to Auditor independence which, makes the auditor be in an ethical dilemma whether to compromise on his independence and perform unethical audit or to do client favoring audit (Pandit & Agnihotri, 2021).

3. Research Gap

It is quite evident that researchers who have provided their considerate opinion on this issue have identified the auditor’s dilemma while conducting an ethical
audit. However there is an absence of any remedy to cease and prevent unethical auditing and a way to relief the auditor from the ethical dilemma of deciding whether to perform honest audit or to perform biased unethical audit favoring the clients by suppression and falsification of facts. Neither do they address the role of spirituality in helping the auditor perform an ethical auditing and eventually contribute to the betterment and trust worthiness of corporate sector.

4. Research Objective
The main aim of the research is to find out the reasons of an erudite accountant practicing bad auditing by losing his independence and the ethical dilemma he faces while doing the same. The research also looks for finding the remedies to cease such malpractice of unethical auditing and address how business spirituality can be used effectively to help auditors remain free from any dilemma.

5. Research Methodology
The research takes into account the views of 65 Chartered Accountants, 65 Cost Accountants, 25 Academic and research Scholars, a host of investors and Chartered Accountancy final students to answer one simple question: “why good accountants perform bad audit?”. Based on recent corporate scams, research papers and judicial case decisions 14 variables were selected which determines the reason for doing bad auditing. 14 questions were devised for respondents with Likert 5 point scale where 5 represents strongly agree and 1 as strongly disagree. The mean score of each respondent were taken to determine the response. This was the primary source of data. While proposing the remedies to the problem and in describing the role of Business Spirituality in helping the auditors to get off the ethical dilemma of choosing between ethical audit and client’s demand, secondary data comprising of relevant books, journals, newspaper articles and distinguished lectures were sought after.

6. Work done
The opinion of respondents for each of the select variables was incorporated in a data sheet. Respondent categories with mean score greater than the overall average represent a greater degree of emphasis with a particular variable than the rest. The observation is shown in Table 1.

![Figure 1 Graph for Overall Mean Score of Each Response](image-url)
### Table 1 Mean Scores of Overall Respondent Categories and Overall Mean Scores

<table>
<thead>
<tr>
<th>Variable</th>
<th>Variable Name</th>
<th>CA</th>
<th>CMA</th>
<th>Academician</th>
<th>Student</th>
<th>Investor</th>
<th>Overall Average Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Auditor’s callousness</td>
<td>3.43</td>
<td>3.69</td>
<td>4</td>
<td>4</td>
<td>3.33</td>
<td>3.69</td>
</tr>
<tr>
<td>2</td>
<td>Lack of legal framework</td>
<td>3.46</td>
<td>2.87</td>
<td>2.5</td>
<td>2.73</td>
<td>3.36</td>
<td>2.98</td>
</tr>
<tr>
<td>3</td>
<td>Nepotism in appointment</td>
<td>2.98</td>
<td>3.48</td>
<td>3.7</td>
<td>4.13</td>
<td>3.2</td>
<td>3.50</td>
</tr>
<tr>
<td>4</td>
<td>Favourability toward the client</td>
<td>3.5</td>
<td>3.42</td>
<td>3.7</td>
<td>3.6</td>
<td>3.21</td>
<td>4.16</td>
</tr>
<tr>
<td>5</td>
<td>Rotation of Auditor</td>
<td>3.21</td>
<td>3.54</td>
<td>3.7</td>
<td>3.06</td>
<td>3.34</td>
<td>3.43</td>
</tr>
<tr>
<td>6</td>
<td>Ceiling of minimum and maximum Audit fees</td>
<td>3.6</td>
<td>4.03</td>
<td>4.1</td>
<td>3.33</td>
<td>4.15</td>
<td>3.84</td>
</tr>
<tr>
<td>7</td>
<td>Business Spirituality Education</td>
<td>3.8</td>
<td>4.06</td>
<td>4.1</td>
<td>3.4</td>
<td>3.36</td>
<td>3.74</td>
</tr>
<tr>
<td>8</td>
<td>Competition for honest unbiased Audit</td>
<td>2.29</td>
<td>3</td>
<td>3.4</td>
<td>3.4</td>
<td>2.94</td>
<td>3.01</td>
</tr>
<tr>
<td>9</td>
<td>Necessary amendments in the Company’s Act</td>
<td>4.57</td>
<td>4.38</td>
<td>4.4</td>
<td>3.4</td>
<td>4.21</td>
<td>4.20</td>
</tr>
<tr>
<td>10</td>
<td>Ethical and Value Education</td>
<td>3.06</td>
<td>3.34</td>
<td>3.5</td>
<td>4.06</td>
<td>3.15</td>
<td>3.42</td>
</tr>
<tr>
<td>11</td>
<td>Professional skepticism and peer review committee</td>
<td>2.53</td>
<td>2.77</td>
<td>3.2</td>
<td>3.33</td>
<td>2.73</td>
<td>2.91</td>
</tr>
<tr>
<td>12</td>
<td>Imparting knowledge and experience to newly appointed auditors.</td>
<td>3.94</td>
<td>4.08</td>
<td>4.1</td>
<td>4</td>
<td>4.37</td>
<td>4.09</td>
</tr>
<tr>
<td>13</td>
<td>Motivational talks</td>
<td>2.5</td>
<td>3.01</td>
<td>3.9</td>
<td>3.4</td>
<td>3.63</td>
<td>3.29</td>
</tr>
<tr>
<td>14</td>
<td>Awareness Programs</td>
<td>2.5</td>
<td>3</td>
<td>3.9</td>
<td>4.4</td>
<td>3.63</td>
<td>3.49</td>
</tr>
</tbody>
</table>

#### Graph 2: Graph showing Mean Scores of Respondents

**Figure 2** Graph Showing the Mean Scores of Response
6.1 Inference from Table 1 and Graph 1
The results of the respondents collected from the in questionnaires were really striking. The respondents have themselves agreed that bad auditing is practiced relentlessly. The reasons they have sighted can be concluded as:
- Negligence of Auditors
- Attachment with client
- Ethical conflict
- Audit Fees temptation
- Insufficiency in regulatory framework

These factors are not the author’s point of view but are accepted and proposed by the respondents. The degree to which these factors encourage the practice of unethical auditing is represented graphically in Graph 2.

6.2 Inference from Graph 2
The factor which the respondents have sighted most to effect in the process of auditing is Ethical Conflict. The auditor is at dilemma. Whenever he suspects any questionable accounting he is at conflict to whose favor he must Audit. He feels a tremendous strain in deciding whether he will hurt the client company who has provided him resources for his livelihood or the faceless, unknown, thousands of innocent investors who solely rely on the Auditor’s judgment. The respondents have confessed that they can’t bear the risk of going into the bad books of their client because the client is the Auditor’s source of livelihood. Attachment with the client is thus considered another important factor in determining the auditor’s reason for doing unethical Auditing. But these are just the primary reasons. The Actual reasons for performing dishonest auditing are graver, which provides for a deep analysis of the responses collected.

7. Analysis
Human beings are very much influenced by their in desires. These desires are such intense that they influence so strongly that human tends to interpret information the very way they want. Auditors being human being are no exception and this gives rise to The Actual Reasons of Unethical Auditing.

8. Reasons for Unethical Auditing
8.1 Unconscious Biases Leading to Unconscious Bad Auditing
The auditor’s brain is so much into the thought of complying with the client’s request that they often unconsciously perform poor auditing to have client's favor. Besides when he is unconsciously performing bad auditing, what he has in mind is short-term reward without the threat of jail time.

8.2 Loopholes in the Accounting System
Even if the Auditor is immune to biases but the corporate auditing arena is a fertile ground for self-servicing biases. This contributes to the second reason of loop holes in the accounting system. The three structural aspects that contribute to the same

8.3 Ambiguity
Bias thrives wherever there is the possibility of interpreting information in a different way. Many people believe that one number mainly earnings per share is what that determines the financial position of a company (Bazerman & Lowenstien, 2002, November). But that is not always true, the current ratio is also important to determine the liquidity of the business. So there is an ambiguity which one to see for. This gives fertile ground for the auditor to tamper financial statements.

8.4 Attachment
Auditors are hired and fired by companies. Accounting firms have increasingly treated audits as ways to build relationship that allow them to sell their more lucrative consulting services.

8.5 Approval
An audit ultimately endorses or rejects the client’s accounting—in other words, it assesses the judgments that someone in the client firm has already made. Finding fault in such a scenario would mean that the company has done some mis-statements. The Auditor cannot bear that risk as that is highly probable to turn the relationship between auditor and the company sour.

8.6 Preference to Response to Immediate Consequences Than Delayed Ones
The human brain is such that it tends to response to immediate consequences than delayed ones. It tries to tackle immediate problems without any hint what harm it can bring in future. In the same way, auditors
may hesitate to issue critical audit reports because of the adverse immediate consequences—damage to the relationship, potential loss of the contract, and possible unemployment. An auditor prefers to harm the investors in the present to be in the good books of the company but it does not think what will happen if the company in the future is caught of being corrupt. This is one of the main reasons for performing biased auditing.

8.7 Tendency to Oversee Small Frauds
Auditors have become biased to small imperfections. They tend to ignore small mistakes. However, the sum total of all these small mistakes eventually becomes large. Correcting the same requires admitting prior errors and hence to avoid burden of work they remain as it is and bad auditing becomes inevitable.

8.8 Unethical Accounting Wrongly Interpreted as Creative Accounting
The auditors are often under the impression that falsifying figures and suppression of facts are not necessarily unethical rather the very practice proclaims the auditor’s creativity in the field. Such a notion is absolutely unjustified and has been a root cause for auditors performing unethical Accounting. It must be noted that Creative Accounting can be said so only when it adds value for a good motive. However, falsification though demands creativity is not practiced with a good motive and more over demeans the value and validity of a statement.

9. Proposed Solution
Ethical Auditing surely can’t be forced upon on Auditors, neither can an auditor be threatened to do the same. Ethical auditing is something that needs to be voluntarily practiced. More than a statutory obligation to perform, ethical auditing should be a normal habit to pursue. This can only be possible through Business Spirituality. Business Spirituality is the phenomenon that allows having a sense of sacredness without the institutional practice and limitations that are associated with traditional religion (Jamta & Sharif, 2018, September).It is an actualization of an inherently human capacity. It is about becoming a person in the fullest sense after imbibing the complete essence of business at large. Business spirituality highlights the basic mantra business that is: How Business is useful to the people? In this light we propose the following practices as remedies to auditor’s ethical dilemma and unethical auditing and also discuss how spirituality helps in preaching and practicing these remedies:

9.1 Rotation of Auditors
The human brain is slave to human desires. The auditor being human being is no exception. The auditors are assured of incentives when they make financial statements favoring the client company. This greed of incentive is so much that the auditor fails to realize when it has entered the death zone of corrupt audit. Rotation of Auditors is utmost necessary as it prevents the auditor from being very close to the client. Business Spirituality preaches detachment and fosters individual happiness through happiness of others. It makes a person more flexible and helps him to adjust, accept and improvise to new surroundings. If business spirituality is practiced by an auditor, he will be more flexible and it won’t bother him to adapt to new situations if rotation of auditors take place. Thus he is in no way under pressure to meet client’s uncalled for demand; neither he faces any dilemma of being fired and getting adjusted to new situation.

9.2 Fixed Contract Period of Auditors
Auditors are constantly under pressure of being fired if they do not prepare financial statements to meet client’s demand. If contract periods are fixed then they are not in the worry of losing their jobs and hence easily practice ethical auditing. Even if they are under pressure within the contract period to meet client’s demand; business spirituality comes in help. Business spirituality teaches us to be daring (CNBC TV, 2019). It can preach the auditors to take risks for a better cause and make business useful to its stakeholders.

9.3 Forensic Auditing
Forensic Auditing is an examination and evaluation of a firm’s or individual’s financial information for use as evidence in court. If such seriousness is shown in Auditing, where the highest judicial body is scrutinizing the audit, then auditors are bound to be ethical. Spirituality adds perfectness and honesty to one’s life and it unconsciously leads to value
addition. Business spirituality helps in making forensic auditing a common phenomenon rather than a difficult evaluation by voluntarily making an auditor ethical in mind and flesh.

9.4 Competitive Structure for Ethical and Honest Auditing

Competition imbibes the spirit of doing a work. If the government introduces the concept of competitive auditing and lets the auditors be rewarded for performing honest and ethical audit then the urge for doing good audit will increase and hence a true audit will take place. Business Spirituality comes in help here also. It not only imbibes ethics but also allows values and ethics to be used as a weapon for success if used positively.

9.5 Spiritual Education in Corporate Houses

The Auditor alone is not responsible for unethical auditing; the corporate sector are equally liable as it is they only who force auditors to perform bad auditing by making them prepare financial statements to suit the company’s unethical demands. Under such a scenario Business Spirituality education is the need for the hour as it preaches the basic mantra of business: “Business must be useful to people” It is not like that a business is not being useful but there is a lack of urge among the corporate houses to serve. They do deliver usefulness just that they do not enjoy delivering usefulness (SadguruJaggi Vasudev, 2018). Making a profit is not bad. Creating valuables is not bad either. But valuables must not come at the cost of values. Business Spirituality teaches us to have valuables based on values. Capitalism is the need of the hour. It helps us to achieve, hold, and grow our wealth. Business Spirituality teaches conscious capitalism. If capitalism is about the passion to achieve then conscious capitalism is the compassion to achieve and share. If the company has a sense of Conscious Capitalism, it will eventually not restrict itself to earning profits rather it will share its contribution to society. In such a case there is no room for auditors to falsify statements as that will go against the moral structure of the company.

Conclusion

Professional schools have started taking ethics seriously in the recent years. Spiritual education in fostering business is the need of the hour. It is Business Spirituality that will help the auditor to understand the unconscious errors they make and the reasons they make them. Reasons such as the tendency to oversee small frauds and being attached to the client can be solved by spiritual practices. It helps the auditor in understanding; the basic need of business prosperity is not just earning profit but to enhance the usefulness of the business towards the people. An auditor must at the very onset practice ethical auditing keeping in mind that if false facts are represented to the stakeholders of a company then that may create a temporary fine image of the firm but in the long run when truth are revealed the usefulness of the company declines for the people. Knowledge of Business Spirituality is alone not essential, once the visionary leaders in the auditing profession understand the perks of good auditing, they can share their experiences with the new auditors and help change the conduct of accounting to prevent conflict of interests. Companies on the other hand must see to it that the valuables that they create are not at the cost of values. Their valuables must be based on value. This will create an atmosphere where not only a single company will benefit but all other peer companies will foster in the long run as the small step in creating value-based valuables simultaneously adds to the company in the form of profits and the economy as a whole where the company thrives. It’s the nature’s law that a good field will reap good yield. If the economy is well off the industry in the economy is bound to prosper. Thus capitalism must be converted to conscious capitalism where the passion to achieve and hold must be backed by the compassion to achieve and share.

References


