

## Statutory Auditors' Role on Corporate Accounting Corruption: Users' Perceptions

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### Abstract

Based on audit evidences collected from internal and external sources, statutory auditors conduct a rigorous audit procedure and form their opinion on aforesaid issues and state whether financial statements exhibit 'true and fair' view of the business operation in the report. In present day, economic environment, greed and tremendous urge to survive in the cut throat competitions induce some company management to breach accounting laws and manipulate financial statements. Accounting irregularities in the financial statement eventually comes under regulatory radar leading to company's demise affecting most of its stakeholders. The scandal then becomes a topic of discussion in media and other business forums. Since 1990, our Globe has been witnessing such corporate accounting scandals times without number in different countries (e.g. *Scandal at Polly Peck, Enron, Parmalat, Royal Ahold, Satyam, etc.*). These scams across the Globe proved auditors' failure in performing their duties sincerely. Every time a scandal is revealed, question on auditors' sincerity and independence is raised automatically. Stakeholders are betrayed and professional integrity and ethical responsibility of the auditors are questioned. In view of this, the current study makes an exploration on the relevant issues affecting statutory auditors' role on corporate accounting corruption based on occupation of respondents.

**Keywords:** True and Fair view, stakeholders, corporate accounting corruption, statutory auditors' independence

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### 1. Background of the Study

Accounting is the language of business organization communicating financial information to its stakeholders in order to assist them for understanding its performance and taking their financial decision. With a view to providing financial information to investors and other stakeholders, the financial statements are usually prepared in accordance with applicable financial reporting framework prescribed by the appropriate authorities in every country. The applicable financial reporting framework often encompasses financial reporting standards established by an authorized or recognized standards setting organization [i.e. The Institute of Chartered Accountants of India (ICAI) in India], regulatory requirements, corporate governance code, etc. The entire framework provides a guideline to management or preparers of the financial statements to represent 'true and fair' view of business performance. It is fact that management of business organization often intends to project an increasing share price trend in order to ensure continuous inflow of fund in the business. At the same time, many incentive schemes entitled to the management are linked with stock market performance of the companies' share (Jones, 2011). Therefore, the financial results of companies signify earning potentiality and growth prospects.

It is significant to note that, sometime management falsifies their financial statement within or outside the regulatory framework. They often desire to exhibit increasing accounting profits and a strong balance sheet (*Window-dressing*) called corporate accounting scandals, which arise with the disclosure of misdeeds by trusted executives of large public corporations. Such misdeeds typically involve *complex methods for misusing or misdirecting funds, overstating revenues, understating expenses, overstating the value of corporate assets or*

*underreporting the existence of liabilities.* In public companies, this type of accounting scandals can amount to fraud. On the other hand, if the financial falsification is made by using the loopholes of the accounting principles including accounting standards and regulatory framework is called *creative accounting* (Mulford & Comiskey, 2002). Pre-mature revenue recognition, fraudulent revaluation of intangibles, misclassification of debt as equity, inclusion of non-operating items, under provisioning for future loss, capitalization of revenue expenses are some of the methods followed by the management to fulfil their purpose of profit smoothing or *earnings management* (Mahindra,1998). Creative accounting, which is done by using loopholes of the accounting framework and within the accounting principles and regulatory framework, is sometimes not considered an illegal work in many countries. Still creative accounting is sometimes mystified with accounting fraud (Jones).

While Reporting is the last part of accounting, there is a need for verification and authentication of such financial transactions. This is performed by external/statutory auditors in order to assure the reliability and authenticity of the financial information. By the statute of law, professional accountants external to the business enterprise are appointed as independent financial statutory auditors (Gupta,2005). External statutory auditors as a representative of the stakeholders are supposed to check whether the financial statements of companies have been made in accordance with applicable financial reporting framework. In order to perform their duties smoothly, they comply with auditing standards and code of conducts which provide a legal ethical framework for their operation (Singh,2009). They are held responsible for checking material accuracy of financial reports (Truth) and appropriateness of the managerial judgment used to select and apply an accounting principle in particular circumstances (Fairness) (Duska,2009). Based on audit evidences collected from internal and external sources, they conduct a rigorous audit procedure and form their opinion on aforesaid issues and state whether financial statements exhibit '*true and fair*' view of the business operation in the report. In a nutshell, auditors act as a connecting link and approve the financial report prepared by the management for the stakeholders. Many sections of the stakeholders believe that the audited financial statements are free from manipulation. Thus, auditors are supposed to play an important role in the economy in protecting stakeholders' interest.

In present day, economic environment, greed and tremendous urge to survive in the cut throat competitions induce some company management to breach accounting laws and manipulate financial statements. Accounting irregularities in the financial statement eventually comes under regulatory radar leading to company's demise affecting most of its stakeholders. The scandal then becomes a topic of discussion in media and other business forums (Copeland,2005). Since 1990, our Globe has been witnessing such corporate accounting scandals times without number in different countries (*e.g. Scandal at Polly Peck, Enron, Parmalat, Royal Ahold, Satyam, etc.*). These scams across the Globe proved auditors' failure in performing their duties sincerely. In a post-mortem analysis, it was also perceived that auditors were involved with the management and helped in committing fraud (Dastur,1998). Every time a scandal is revealed, question on auditors' sincerity and independence is raised automatically. In some cases, big audit firms (*e.g. Price Waterhouse Coopers, Ernst & Young, KPMG, Deloitte etc.*) were found to work in nexus with the management to falsify financial reports and in some other cases, their unintentional negligence resulted in disastrous consequences. Stakeholders are betrayed and professional integrity and ethical responsibility of the auditors are questioned (Brewster,2003).

## 2. Past Studies and Research Gap

Freier (2005) in his study "*Compromised Work in the Public Accounting Profession: the Issue of Independence*" provided a historical count of the evolution of professionalism and independence by statutory auditors since 1950. From the same period, non-audit services provided by the accounting firms are also studied. It was found from this study that importance of attestation services is losing importance against non-audit services. The impact on auditors' independence in Enron-Anderson debacle is also critically reviewed by the author. Ghosh (1999) in his study "*Independence of Statutory Auditors of Companies – a Myth or Reality*" critically examined the provisions of different acts relating to safeguarding independence of the auditors and underlying weakness of the system. The study is based on perception of practicing chartered accountant on safeguarding independence of the statutory auditors. According to the respondents, auditor's independence is not safeguarded. Godbole (2004) in his study "*Sarbanes Oxley Act and corporate governance*" provided a brief profile of Sarbanes Oxley Act,

2002 issued following Enron scam. Different provisions of this act concerning Public Company Accounting Oversight Board, Audit Independence and role of audit committees in financial fraud are discussed in detail. The study concluded that this act plays an important role in reshaping the corporate governance structure. Crutchley, Jensen and Marshall (2007) in their study "*Climate for Scandal: Corporate Environment that contribute to Accounting Fraud*" analysed the governance mechanism, earnings quality, growth rate, dividend policy of 97 companies under examination of Securities Exchange Commission (SEC) and came to conclusion that corporate environment facilitating growth and providing scope for earning smoothing is the main reason of accounting fraud. Lack of independence of auditors, audit committee and directors, were also held responsible for this fraud. Fearnley, Beattie & Brandt (2005) in their study "*Auditor independence and audit risk: A re-conceptualisation*" demonstrated regulatory responses for mitigating audit risk and safeguarding threats to independence. The authors provided comparative case studies of 6 UK companies and it revealed that strong regulatory hold may not always be sufficient to reduce threats to independence. Lack of safeguards also causes audit risk. Narielvala (1998) in his study "*Code of conduct for a profession: A torch to the succeeding generation*" gave an overview on the professional code of conduct for professional accountants. Contribution of such code in building integrity and independence of professional accountant and consequences of non-compliance to the code are discussed in detail. Saxena (1993) in his study "*Auditor's Independence: Learning from America's Experience*" analysed the impact of auditors' independence, objectivity and honesty in raising the usefulness of the financial statement to the user. An auditor to be independent should be free from conflicts of interest. US environment and US legislation governing the issue of independence is also discussed under the study. Shah (2000) in his study "*Do the right thing*" examined the impact of Chartered Accountants Act and other regulation on building independence and integrity of operation for Chartered Accountants. These regulations are then compared with legislations provided by International Federation of accountants (IFAC).

In the previous section, a comprehensive picture of literatures based on secondary sources of information on statutory auditors' role in the backdrop of corporate accounting corruption have been presented. Though there is good number of perception-based study on statutory auditors' independence, the study based on opinions of different categories of respondents related to the operations of statutory auditors were not made effectively. This limitation of the past studies encourages to analyse the respondents' perceptions on the theme of the study with the following objective.

### 3. Objective of the Study

The major objective of the study is to explore the relevant issues affecting statutory auditors' independence in the context of corporate accounting corruption based on occupation of respondents.

### 4. Research Methodology

The present study is exploratory in nature. The methodology, as adopted in pursuing the study, has been presented here:

- (i) *Sample Design*: Primary data for the study has been collected from different categories of respondents having adequate knowledge and experience in the related field. Both male and female respondents with age ranging from 20 to 80 have contributed their opinion in the research. The geographical area where the survey is conducted is Kolkata district in the state of West Bengal, India. As population size is infinite, an attempt has been made to determine the sample size based on convenience sampling method. At the beginning, total respondents have been grouped into three categories: Academic, Professional and Other Group. (a) Academicians and (b) Students have come under the 'Academic Group'. 'Professional Group' comprises (a) Chartered Accountants (CAs) and (b) Cost and Management Accountants (CMAs) both in practice and in service in Kolkata. Finally, the 'Other Group' includes (a) Senior Functionaries of the institutionalized investing companies and (b) individual investors. The Population size under each aforesaid category is infinite and indeterminable. Thus, an initial representative sample of 150 respondents has been selected for each subcategory under 'Academic and Professional Group' and an initial sample of 100 respondents has been selected for 'Other Group' based on convenience sampling technique. Hence, total sample size was 700 respondents initially, while we have collected questionnaire from 477 respondents

finally. Based on subjective judgment, responses have been collected from those who by virtue of their profession are able to provide their thoughtful opinion in the present research.

- (ii) *Collection of Data:* The enquiry has been made after going through primary data from the field survey. The primary data has been collected from aforesaid respondents in a pre-tested, close-ended, structured questionnaire containing total 16 statements. The questionnaire for the aforesaid theme is designed in a 'Likert' 5-point scale (5 representing 'Strongly Agree' (SA), 4 representing 'Agree' (A), 3 representing 'Neutral' (N), 2 representing 'Disagree' (D), 1 representing 'Strongly Disagree' (SD)). Initially, a pilot survey was conducted with close-ended structured questionnaire in Kolkata region, while a modified version of questionnaire has been developed subsequently. After that, each of the respondents from the sample size has been contacted over phone or in person to take an appointment with them. Subsequently, they have been visited in their convenient time and place and their opinions have been incorporated in the questionnaire. If the respondents have any other suggestions in this area, they have also been taken into consideration for inclusion in the final analysis. Out of 150 initial sample set for academicians, CAs, CMAs and students, 111 valid responses are collected from academicians, 101 valid responses are collected from CAs, 94 valid responses are collected from CMAs and 118 valid responses are collected from students. An initial sample of 100 was set for investor category. Only 53 valid responses were collected from them.
- (iii) *Variables considered for the current study:* Issues (the variables considered for the current study) on which opinions of respondents are collected can be presented as follows:

**Table -1: Demographic Profile of Respondents based on Occupations**

No. of Variables	Statements/ Variables
V <sub>1</sub>	Creative Accounting and Accounting Fraud are same
V <sub>2</sub>	Flexibility in Generally Accepted Accounting Principles (GAAPs) generates Corporate Accounting Scam (CAS)
V <sub>3</sub>	Seriousness of Statutory Auditors (SAs)
V <sub>4</sub>	Negligence of Statutory Auditors (SAs)
V <sub>5</sub>	Lack of Enforceability of Code of Ethics
V <sub>6</sub>	Procedure of Appointment of Statutory Auditors (SAs)
V <sub>7</sub>	Independent Appointing Authority for Statutory Auditors (SAs)
V <sub>8</sub>	Long Auditor Relationship
V <sub>9</sub>	1-year rotation
V <sub>10</sub>	3-years rotation
V <sub>11</sub>	Maximum limit of Audit Fee
V <sub>12</sub>	Implementation of International Financial Reporting Standards (IFRSs)
V <sub>13</sub>	Rendering non-audit services
V <sub>14</sub>	Prohibition of non-audit services
V <sub>15</sub>	Exemplary punishment
V <sub>16</sub>	Relaxation of listing requirement

- (iv) *Statistical Tools used for Interpretation*

After collection of primary data through field survey, an attempt has been made to analyse these data based on gender of respondents with the help of statistical package (SPSS 17.0). From all the questions (i.e. variables) considered under the main theme of the study, cross-sectional analysis has been done using percentage analysis.

## 5. Demographic Profile of the Respondents

In this section, demographic profile of the respondents according to their gender, age and occupational category, shown in Table -1 here.

## 6. Analysis and Discussion of Responses Based on Occupation of Respondents

Respondents from varied occupations participated in this present research. Respondents who by virtue of their occupation get an enormous exposure to the theme of statutory auditors' independence are selected for our analysis. Occupation of respondents involved in this present study is: (a) Academicians; (b) Chartered Accountants (CAs); (c) Cost & Management Accountants (CMAs); (d) Investors; and Students. These five groups will represent five different levels of expectation from the stated theme. Here let us analyse opinions of these five groups for each of the statements mentioned beforehand.

### *V<sub>1</sub>: Creative accounting and accounting fraud are same*

In some countries, creative accounting is allowed as flexibility with accounting regulation. But in some other countries, it is treated as equally illegal with accounting fraud. Thus, opinions of respondents from different occupations are collected to know their degree of agreement with similarity between creative accounting and accounting fraud.

**Table 2: Occupation wise opinion of respondents on 'Creative Accounting and Accounting Fraud are same'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academicians	Count	28	45	11	24	3	111
		%	25.2%	40.5%	9.9%	21.6%	2.7%	100.0%
	CAs	Count	16	46	18	19	2	101
		%	15.8%	45.5%	17.8%	18.8%	2.0%	100.0%
	CMAs	Count	9	50	12	21	2	94
		%	9.6%	53.2%	12.8%	22.3%	2.1%	100.0%
	Investors	Count	10	19	14	10	0	53
		%	18.9%	35.8%	26.4%	18.9%	.0%	100.0%
	Students	Count	15	35	18	44	6	118
		%	12.7%	29.7%	15.3%	37.3%	5.1%	100.0%
Total		Count	78	195	73	118	13	477
		%	16.4%	40.9%	15.3%	24.7%	2.7%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of Academicians (40.5%), CAs (45.5%), CMAs (53.2%), and Investors (35.8%) shows their disagreement with this statement. However, majority of students (37.3%) shows their agreement with this statement. A considerable portion of students (29.7%) disagrees with this statement. A good proportion of investors (26.4%) are showing a neutral approach. Four out of five groups (Academicians, CAs, CMAs and Investors) do not think creative accounting and accounting frauds are same.

### *V<sub>2</sub>: Flexibility in Generally Accepted Accounting Principles (GAAPs) generates Corporate Accounting Scam (CAS)*

Flexibility present within accounting regulation allows to prepare financial statements using alternative choices in manipulating financial statements leading to accounting scandal. Therefore, opinions of respondents from different occupations are collected to know their degree of agreement with impact of flexibility of accounting regulation on corporate accounting scandal.

**Table 3: Occupation wise opinion of respondents on 'Flexibility of GAAP generates CAS'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academics	Count	8	23	17	47	16	111
		%	7.2%	20.7%	15.3%	42.3%	14.4%	100.0%
	CAs	Count	5	42	14	38	2	101
		%	5.0%	41.6%	13.9%	37.6%	2.0%	100.0%
	CMAs	Count	2	28	7	45	12	94
		%	2.1%	29.8%	7.4%	47.9%	12.8%	100.0%
	Investors	Count	3	14	7	25	4	53
		%	5.7%	26.4%	13.2%	47.2%	7.5%	100.0%
	Students	Count	1	20	21	67	9	118
		%	.8%	16.9%	17.8%	56.8%	7.6%	100.0%
Total		Count	19	127	66	222	43	477
		%	4.0%	26.6%	13.8%	46.5%	9.0%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (42.3%), CMAs (47.9%), investors (47.2%) and students (56.8%) agree with this issue. However, majority of CAs (41.6%) shows their disagreement with this issue. A considerably good proportion of CAs (37.6%) also shows their agreement with this issue. Four out of five groups (academicians, CMAs, investors and students) believe flexibility of accounting regulation is a reason behind corporate accounting scandal.

**V<sub>3</sub>: Seriousness of Statutory Auditors (SAs)**

Accounting fraud could be avoided to some extent if statutory auditors were serious enough in performing their duty. Thus, opinions of respondents from different occupations are collected to know their degree of agreement with seriousness of statutory auditors.

**Table 4: Occupation wise opinion of respondents on 'Seriousness of SAs'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academics	Count	54	39	11	5	2	111
		%	48.6%	35.1%	9.9%	4.5%	1.8%	100.0%
	CAs	Count	19	52	15	14	1	101
		%	18.8%	51.5%	14.9%	13.9%	1.0%	100.0%
	CMAs	Count	39	41	6	6	2	94
		%	41.5%	43.6%	6.4%	6.4%	2.1%	100.0%
	Investors	Count	26	22	2	2	1	53
		%	49.1%	41.5%	3.8%	3.8%	1.9%	100.0%
	Students	Count	42	48	10	14	4	118
		%	35.6%	40.7%	8.5%	11.9%	3.4%	100.0%
Total		Count	180	202	44	41	10	477
		%	37.7%	42.3%	9.2%	8.6%	2.1%	100.0%

(Source: Primary data using SPSS 17.0)

48.6% of academicians and 49.1% investors strongly disagree with the stated statement. Majority of CAs (51.5%), CMAs (43.6%), and students (40.7%) only shows their disagreement in this issue. A considerably good proportion of academicians (35.1%) are showing only disagreement to this statement. Good proportion of CMAs (41.5%) and students (35.6%) are showing strong disagreement with the stated statement. For this current sample, respondents irrespective of their occupation do not think statutory auditors were serious enough in performing their duty.

**V<sub>4</sub>: Negligence of SAs**



In recent corporate accounting scandals, it was observed that statutory auditors were negligent in performing their duty that ultimately led to the fraud. Here, opinions of respondents from different occupations are collected to know their degree of agreement with negligence of statutory auditors.

**Table 5: Occupation wise opinion of respondents on 'Negligence of SAs'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academicsians	Count	4	18	7	46	36	111
		%	3.6%	16.2%	6.3%	41.4%	32.4%	100.0%
	CAs	Count	1	25	18	44	13	101
		%	1.0%	24.8%	17.8%	43.6%	12.9%	100.0%
	CMAs	Count	3	18	7	43	23	94
		%	3.2%	19.1%	7.4%	45.7%	24.5%	100.0%
	Investors	Count	0	20	8	16	9	53
		%	.0%	37.7%	15.1%	30.2%	17.0%	100.0%
	Students	Count	6	15	10	50	37	118
		%	5.1%	12.7%	8.5%	42.4%	31.4%	100.0%
Total		Count	14	96	50	199	118	477
		%	2.9%	20.1%	10.5%	41.7%	24.7%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicsians (41.4%), CAs (43.6%), CMAs (45.7%), and students (42.4%) shows their agreement with this statement. Majority of investors (37.7%) disagree with the stated statement. A considerably good portion of investors (30.2%) also shows their agreement with this statement. A good proportion of academicsians (32.4%) and students (31.4%) also strongly agree with this statement. Majority of four out of five groups (academicsians, CAs, CMAs, and students) think statutory auditors were negligent in performing their duty in recent corporate accounting scandal. The portion of investors who are disagreeing with it think it was not negligence, rather statutory auditors intentionally got involved with the management for perpetrating the fraud.

**V<sub>5</sub>: Lack of enforceability of code of ethics**

Code of ethics dictates ethical responsibility of statutory auditors in maintaining their independence. But recent corporate accounting scandals raised question about enforceability of code of ethics. So, opinions of respondents from different occupations are collected to know their degree of agreement lack of enforceability of code of ethics.

**Table 6: Occupation wise opinion of respondents on 'Lack of enforceability of code of ethics'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academicsians	Count	3	15	11	55	27	111
		%	2.7%	13.5%	9.9%	49.5%	24.3%	100.0%
	CAs	Count	3	40	16	40	2	101
		%	3.0%	39.6%	15.8%	39.6%	2.0%	100.0%
	CMAs	Count	3	18	15	47	11	94
		%	3.2%	19.1%	16.0%	50.0%	11.7%	100.0%
	Investors	Count	3	11	13	22	4	53
		%	5.7%	20.8%	24.5%	41.5%	7.5%	100.0%
	Students	Count	2	13	30	62	11	118
		%	1.7%	11.0%	25.4%	52.5%	9.3%	100.0%
Total		Count	14	97	85	226	55	477
		%	2.9%	20.3%	17.8%	47.4%	11.5%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (49.5%), CAs (39.6%), CMAs (50%), investors (41.5%), and students (52.5%) shows their agreement with this statement. An equal percentage of CAs agreeing to the statement is also disagreeing to it. For this current sample, respondents irrespective of their occupation think code of ethics for statutory auditors are not properly enforced. Among these five occupational categories, relative agreement of academicians is highest.

***V<sub>6</sub>: Procedure for appointment for SAs***

Statutory auditors are appointed on the recommendation of management giving management enough scope to influence statutory auditors. So, opinions of respondents from different occupations are collected to know their degree of agreement with justification of this present procedure of appointment.

**Table 7: Occupation wise opinion of respondents on 'Procedure of appointment of SAs'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academicians	Count	1	17	15	55	23	111
		%	.9%	15.3%	13.5%	49.5%	20.7%	100.0%
	CAs	Count	1	26	12	46	16	101
		%	1.0%	25.7%	11.9%	45.5%	15.8%	100.0%
	CMAs	Count	3	26	14	31	20	94
		%	3.2%	27.7%	14.9%	33.0%	21.3%	100.0%
	Investors	Count	1	14	7	22	9	53
		%	1.9%	26.4%	13.2%	41.5%	17.0%	100.0%
	Students	Count	13	31	24	39	11	118
		%	11.0%	26.3%	20.3%	33.1%	9.3%	100.0%
Total		Count	19	114	72	193	79	477
		%	4.0%	23.9%	15.1%	40.5%	16.6%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (49.5%), CAs (45.5%), CMAs (33%), investors (41.5%) and students (33.1%) show their agreement with this statement. A considerably good proportion of CMAs (27.7%) disagree with the given statement. However, a portion of them (21.3%) also strongly agrees with it. A considerably good proportion of students (26.3%) are showing their disagreement to the aforesaid statement while another good proportion of them (20.3%) is showing a neutral approach. Majority of respondents under each of the respondents' category think that present procedure of appointment of statutory auditors impairs their independence. Among these five occupational categories, academicians agree to this statement most.

***V<sub>7</sub>: Independent appointing authority for SAs***

If the right of appointing statutory auditors is taken from management and given to an independent appointing authority, statutory auditors' independence could be protected to some extent. Thus, opinions of respondents from different occupations are collected to know their degree of agreement with establishment of an independent appointing authority.



**Table 8: Occupation wise opinion of respondents on 'Independent appointing authority for SAs'**

			Degree of Agreement					Total	
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement		
OCCUPATION	Academicians	Count	8	17	10	38	38	111	
		%	7.2%	15.3%	9.0%	34.2%	34.2%	100.0%	
	CAs	Count	3	35	12	40	11	101	
		%	3.0%	34.7%	11.9%	39.6%	10.9%	100.0%	
	CMAs	Count	3	22	12	36	21	94	
		%	3.2%	23.4%	12.8%	38.3%	22.3%	100.0%	
	Investors	Count	3	13	7	16	14	53	
		%	5.7%	24.5%	13.2%	30.2%	26.4%	100.0%	
	Students	Count	14	15	25	42	22	118	
		%	11.9%	12.7%	21.2%	35.6%	18.6%	100.0%	
	Total		Count	31	102	66	172	106	477
			%	6.5%	21.4%	13.8%	36.1%	22.2%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (34.2%), CAs (39.6%), CMAs (38.3%), investors (30.2%) and students (35.6%) agree with this statement. An equal percentage of academicians (34.2%) even strongly agree with this statement. A good proportion of CMAs (22.3%) and investors (26.4%) also strongly agree with this statement. A considerably good proportion of CAs (34.7%), CMAs (23.4%) and investors (24.5%) also show their disagreement with this statement. A good percentage of students (21.2%) are showing a neutral approach. For this select sample, respondents irrespective of their occupation think that establishment of an independent appointing authority for statutory auditors could restore their independence to some extent. Among these five occupational categories, relative agreement to this proposal is highest for academicians.

***V<sub>8</sub>: Long auditor relationship of SAs***

If any statutory auditor is appointed in a company for a long period of time, there is a likelihood of increasing unholy involvement between management and auditors which will ultimately impair their independence. Thus, opinions of respondents from different occupations collected to know their degree of agreement with impact of long auditors' relationship on statutory auditors' independence.

**Table 9: Occupation wise opinion of respondents on 'Long auditor relationship of SAs'**

			Degree of Agreement					Total	
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement		
OCCUPATION	Academicians	Count	2	5	9	57	38	111	
		%	1.8%	4.5%	8.1%	51.4%	34.2%	100.0%	
	CAs	Count	2	16	12	61	10	101	
		%	2.0%	15.8%	11.9%	60.4%	9.9%	100.0%	
	CMAs	Count	1	9	6	46	32	94	
		%	1.1%	9.6%	6.4%	48.9%	34.0%	100.0%	
	Investors	Count	1	3	5	29	15	53	
		%	1.9%	5.7%	9.4%	54.7%	28.3%	100.0%	
	Students	Count	2	14	27	50	25	118	
		%	1.7%	11.9%	22.9%	42.4%	21.2%	100.0%	
	Total		Count	8	47	59	243	120	477
			%	1.7%	9.9%	12.4%	50.9%	25.2%	100.0%

(Source: Primary data using SPSS 17.0)

A major portion of academicians (51.4%), CAs (60.4%), CMAs (48.9%), investors (54.7%) and students (42.4%) agree with this statement. A considerably good proportion of CMAs (34%) also strongly agree with this issue. For this select sample, respondents irrespective of their occupation believe long association between audit

client and statutory auditors could impair statutory auditors' independence. Among these five occupational categories, relative agreement with this stated statement is highest for academicians.

***V<sub>9</sub>: 1-year rotation***

Rotation of appointment of statutory auditor is an important aspect in maintaining auditors' independence. Here, opinions of respondents from different occupations are collected to know their degree of agreement with rotation of auditor every year.

**Table 10: Occupation wise opinion of respondents on '1-year rotation'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academicians	Count	20	42	21	18	10	111
		%	18.0%	37.8%	18.9%	16.2%	9.0%	100.0%
	CAs	Count	37	51	7	5	1	101
		%	36.6%	50.5%	6.9%	5.0%	1.0%	100.0%
	CMAs	Count	17	60	11	2	4	94
		%	18.1%	63.8%	11.7%	2.1%	4.3%	100.0%
	Investors	Count	11	33	5	1	3	53
		%	20.8%	62.3%	9.4%	1.9%	5.7%	100.0%
	Students	Count	10	43	25	28	12	118
		%	8.5%	36.4%	21.2%	23.7%	10.2%	100.0%
Total		Count	95	229	69	54	30	477
		%	19.9%	48.0%	14.5%	11.3%	6.3%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (37.8%), CAs (50.5%), CMAs (63.8%), investors (62.3%) and students (36.4%) disagree with the proposal of the statement. A good proportion of students (23.7%) are agreeing to the stated statement. However, another good proportion of students (21.2%) are showing a neutral approach. For this select sample, respondents irrespective of their occupation do not suggest rotation of statutory auditors each year as a measure of restoring their independence. Among these five occupational categories, relative disagreement of CAs is highest.

***V<sub>10</sub>: 3-years rotation***

This question is linked with above question. Here, opinions of respondents from different occupations are collected to know their degree of agreement with rotation of auditor every 3 years.

**Table 11: Occupation wise opinion of respondents on '3-years rotation'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academicians	Count	3	24	14	56	14	111
		%	2.7%	21.6%	12.6%	50.5%	12.6%	100.0%
	CAs	Count	2	33	15	47	4	101
		%	2.0%	32.7%	14.9%	46.5%	4.0%	100.0%
	CMAs	Count	3	15	5	64	7	94
		%	3.2%	16.0%	5.3%	68.1%	7.4%	100.0%
	Investors	Count	0	8	8	27	10	53
		%	.0%	15.1%	15.1%	50.9%	18.9%	100.0%
	Students	Count	9	21	34	46	8	118
		%	7.6%	17.8%	28.8%	39.0%	6.8%	100.0%
Total		Count	17	101	76	240	43	477
		%	3.6%	21.2%	15.9%	50.3%	9.0%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (50.5%), CAs (46.5%), CMAs (68.1%), investors (50.9%), and students (39%) agree with this statement. A good proportion of CAs (32.7%) also shows their disagreement with this statement. A good proportion of students (28.8%) shows neutral approach. For this current sample, majority of respondents in each occupational category think rotation of statutory auditors after a period of three years would not only restore independence of statutory auditors but also ensure quality of audit. Among these five occupational categorised, relative agreements of investors are highest.

***V<sub>11</sub>: Maximum limit of audit fee***

Sometimes statutory auditors could be paid audit fee more than what they are entitled to. This mechanism could impair their independence to some extent. Here, opinions of respondents from different occupations are collected to know their degree of agreement with impact of maximum limit of audit fee on statutory auditors' independence.

**Table 12: Occupation wise opinion of respondents on 'Maximum limit of audit fee'**

			Degree of Agreement					Total	
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement		
OCCUPATION	Academicians	Count	12	18	20	47	14	111	
		%	10.8%	16.2%	18.0%	42.3%	12.6%	100.0%	
	CAs	Count	13	62	10	16	0	101	
		%	12.9%	61.4%	9.9%	15.8%	.0%	100.0%	
	CMAs	Count	2	41	14	28	9	94	
		%	2.1%	43.6%	14.9%	29.8%	9.6%	100.0%	
	Investors	Count	6	21	7	13	6	53	
		%	11.3%	39.6%	13.2%	24.5%	11.3%	100.0%	
	Students	Count	14	20	19	44	21	118	
		%	11.9%	16.9%	16.1%	37.3%	17.8%	100.0%	
	Total		Count	47	162	70	148	50	477
			%	9.9%	34.0%	14.7%	31.0%	10.5%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (42.3%) and students (37.3%) shows their agreement with this statement. Majority of CAs (61.4%), CMAs (43.6%) and investors (39.6%) show their disagreement with this proposal. A good percentage of investors (24.5%) also agree with this proposition. Three out of five occupational categories (CAs, CMAs and investors) do not think fixing a maximum limit on audit fee would anyway restore statutory auditors' independence. However, occupational categories under academic group (academicians and students) do believe in effectiveness of such proposition.

***V<sub>12</sub>: Implementation of International Financial Reporting Standards (IFRSs)***

Flexibility of principle-based accounting regulation causes creative accounting, which ultimately makes accounting scandal. Most of the countries of the world are now converging towards IFRSs providing flexibility in accounting regulation. Thus, there is confusion whether implementation of IFRSs could actually reduce corporate accounting scandal. Opinions of respondents from different occupations are collected to know their degree of agreement on impact of IFRSs on corporate accounting scandal.

**Table 13: Occupation wise opinion of respondents on 'Implementation of IFRSs'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academicians	Count	2	17	28	47	17	111
		%	1.8%	15.3%	25.2%	42.3%	15.3%	100.0%
	CAs	Count	7	40	32	18	4	101
		%	6.9%	39.6%	31.7%	17.8%	4.0%	100.0%
	CMAs	Count	4	17	27	44	2	94
		%	4.3%	18.1%	28.7%	46.8%	2.1%	100.0%
	Investors	Count	0	12	18	21	2	53
		%	.0%	22.6%	34.0%	39.6%	3.8%	100.0%
	Students	Count	2	10	46	43	17	118
		%	1.7%	8.5%	39.0%	36.4%	14.4%	100.0%
Total		Count	15	96	151	173	42	477
		%	3.1%	20.1%	31.7%	36.3%	8.8%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (42.3%), CMAs (46.8%), investors (39.6%), agree with this statement. However, a good proportion of investors (34%) are showing a neutral approach. Majority of CAs (39.6%) shows their disagreement with this statement. However, an almost equal percentage of CAs (31.7%) is showing a neutral approach. Majority of students (39%) are showing a neutral approach whereas an almost equal percent (36.4%) is showing their agreement with this statement. Majority of respondents under three out of five occupational categories (academicians, CMAs, and investors) believe that implementation of IFRSs could reduce corporate accounting scandal to some extent. However, majority of CAs do not think in that line. On the other hand, majority of students having less knowledge on impact of IFRSs restrained themselves from giving an opinion.

**V<sub>13</sub>: Rendering non-audit services**

Sometimes statutory auditors provide non-audit services apart from audit services to their audit client or outside against huge fees. This could impair quality of their audit work. Here, opinions of respondents from different occupations are collected to know their degree of agreement with impact of non-audit services on quality of audit job.

**Table 14: Occupation wise opinion of respondents on 'Rendering non-audit services'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academicians	Count	1	20	26	47	17	111
		%	.9%	18.0%	23.4%	42.3%	15.3%	100.0%
	CAs	Count	1	44	11	38	7	101
		%	1.0%	43.6%	10.9%	37.6%	6.9%	100.0%
	CMAs	Count	2	30	10	39	13	94
		%	2.1%	31.9%	10.6%	41.5%	13.8%	100.0%
	Investors	Count	4	17	5	18	9	53
		%	7.5%	32.1%	9.4%	34.0%	17.0%	100.0%
	Students	Count	5	22	28	48	15	118
		%	4.2%	18.6%	23.7%	40.7%	12.7%	100.0%
Total		Count	13	133	80	190	61	477
		%	2.7%	27.9%	16.8%	39.8%	12.8%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (42.3%), CMAs (41.5%), investors (34%), and students (40.7%) agree with this statement. However, a good proportion of CMAs (31.9%) and investors (32.1%) also show their disagreement with this statement. Majority of CAs (43.6%) disagree with this statement. However, a considerably good percent of them (37.6%) also agrees with this statement. Majority of respondents from four out of five occupational categories (academicians, CMAs, investors and students) believe that if statutory auditors render non-audit services it will reduce quality of their audit work. However, CAs do not seem to believe so.

**V14: Prohibition of non-audit services**

This question is linked with previous question. It proposes prohibiting statutory auditors from providing non-audit services. Opinions of respondents from different occupations are collected to know their degree of agreement with such proposal.

**Table 15: Occupation wise opinion of respondents on 'Prohibition of non-audit services'**

			Degree of Agreement					Total	
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement		
OCCUPATION	Academicians	Count	10	24	25	40	12	111	
		%	9.0%	21.6%	22.5%	36.0%	10.8%	100.0%	
	CAs	Count	4	61	15	20	1	101	
		%	4.0%	60.4%	14.9%	19.8%	1.0%	100.0%	
	CMAs	Count	7	44	13	25	5	94	
		%	7.4%	46.8%	13.8%	26.6%	5.3%	100.0%	
	Investors	Count	11	20	4	12	6	53	
		%	20.8%	37.7%	7.5%	22.6%	11.3%	100.0%	
	Students	Count	5	21	36	45	11	118	
		%	4.2%	17.8%	30.5%	38.1%	9.3%	100.0%	
	Total		Count	37	170	93	142	35	477
			%	7.8%	35.6%	19.5%	29.8%	7.3%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (36%) and students (38.1%) agree with this statement. However, a good proportion of academicians (21.6%) disagree with this statement and another good proportion of academicians (22.5%) and students (30.5%) show a neutral approach. Majority of CAs (60.4%), CMAs (46.8%), and investors (37.7%) show their disagreement with this statement. However, a good proportion of investors (22.6%) also agree with this statement. Majority of respondents from three out five occupational categories (CAs, CMAs, and investors) do not propose prohibition on statutory auditors from providing non-audit services whereas majority of respondents from other two groups (academicians and students) exactly proposing the same.

**V15: Exemplary punishment**

Exemplary punishments to responsible statutory auditors in a corporate accounting scam can discourage them in committing any fraud in future. Here, opinions of respondents from different occupations are collected to know their degree of agreement with impact of exemplary punishment on reduction of corporate accounting scam.

**Table 16: Occupation wise opinion of respondents on 'Exemplary punishment'**

			Degree of Agreement					Total	
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement		
OCCUPATION	Academicians	Count	0	7	10	51	43	111	
		%	.0%	6.3%	9.0%	45.9%	38.7%	100.0%	
	CAs	Count	1	11	12	46	31	101	
		%	1.0%	10.9%	11.9%	45.5%	30.7%	100.0%	
	CMAs	Count	1	10	8	37	38	94	
		%	1.1%	10.6%	8.5%	39.4%	40.4%	100.0%	
	Investors	Count	0	2	4	17	30	53	
		%	.0%	3.8%	7.5%	32.1%	56.6%	100.0%	
	Students	Count	2	11	17	55	33	118	
		%	1.7%	9.3%	14.4%	46.6%	28.0%	100.0%	
	Total		Count	4	41	51	206	175	477
			%	.8%	8.6%	10.7%	43.2%	36.7%	100.0%

(Source: Primary data using SPSS 17.0)

Majority of academicians (45.9%), CAs (45.5%), and students (46.6%) agree with this statement. A good proportion of academicians (38.7%) and CAs (30.7%) also strongly agree with this statement. Majority of CMAs (40.4%) and investors (56.6%) strongly agree with this statement. A good proportion of CMAs (39.4%) also

agree with this statement. Majority of respondents from three out of five occupational categories (academicians, CAs and students) believe though not strongly that exemplary punishment to responsible statutory auditors could restore their independence whereas majority of respondents from other two groups (CMAs and investors) strongly welcome this move.

**V16: Relaxation of listing requirement**

Sometimes, stringent listing requirement induces a company to enhance their profit figures. So, relaxing stringent listing requirement could de-motivate management to manipulate their financial statements, which will ultimately reduce corporate accounting scandal. Here, opinions of respondents from different occupations are collected to know their degree of agreement with this proposal.

**Table 17: Occupation wise opinion of respondents on 'Relaxation of listing requirement'**

			Degree of Agreement					Total
			Strong Disagreement	Disagreement	Neutral	Agreement	Strong Agreement	
OCCUPATION	Academicians	Count	13	28	32	35	3	111
		%	11.7%	25.2%	28.8%	31.5%	2.7%	100.0%
	CAs	Count	13	62	13	11	2	101
		%	12.9%	61.4%	12.9%	10.9%	2.0%	100.0%
	CMAs	Count	2	36	23	29	4	94
		%	2.1%	38.3%	24.5%	30.9%	4.3%	100.0%
	Investors	Count	6	16	16	13	2	53
		%	11.3%	30.2%	30.2%	24.5%	3.8%	100.0%
	Students	Count	12	33	31	38	4	118
		%	10.2%	28.0%	26.3%	32.2%	3.4%	100.0%
Total		Count	46	175	115	126	15	477
		%	9.6%	36.7%	24.1%	26.4%	3.1%	100.0%

(Source: Primary data using SPSS 17.0)

A remarkable portion of academicians (31.5%) and students (32.2%) agree with this statement. However, a good proportion of academicians (25.2%) and students (28%) also show their disagreement with the proposition made in the statement. On the other hand, another good percent of academicians (28.8%) and students (26.3%) are showing a neutral approach. Majority of CAs (61.4%), CMAs (38.3%) and investors (30.2%) disagree with this statement. However, a good percent of CMAs (30.9%) and investors (24.5%) also agree with this statement. Another good proportion of CMAs (24.5%) and investors (30.2%) are showing neutral approach. Majority of respondents from three out of five occupational categories (CAs, CMAs and investors) do not think listing requirement should be relaxed as a measure of reducing corporate accounting scandal. However, majority of respondents from other two groups (academicians and students) think in the opposite direction.

**7. Conclusion**

It is evident that majority of respondents irrespective of their occupation think statutory auditors are not serious enough in performing their duty. All of the groups strongly agreed that lack of enforceability of code of ethics, procedure of appointment, long audit relationship, are the main reasons behind impairment of statutory auditors' independence. As a measure of solution, all of the groups proposed establishment of an independent appointing authority, rotation of statutory auditors after every 3-years, instating exemplary punishments. But none of the groups suggested rotation for a period of 1-year. Four out of five occupational categories believe creative accounting and accounting fraud are not same and flexibility in accounting regulation is the reason behind accounting scandal. Four out five groups also believe that non-audit services could reduce statutory auditors' independence. Three out of five groups do not propose fixing a maximum limit on audit fees or prohibition of non-audit services. But they do think that implementation of IFRSs or relaxing listing requirement could reduce corporate accounting scam. Among all five groups, issue where investors showed maximum disagreements, was seriousness of statutory auditors. Among all five groups, issues where Investors showed maximum agreements, was rotation of auditor after every 3-years as indicator of corporate scam. Among all five groups, issue where CAs showed maximum disagreements was rotation for 1-year. Among all five groups, issues where

academicians showed maximum agreements was lack of enforceability of code of ethics, procedure of appointment of statutory auditors, necessity of an independent appointing authority, long auditor relationship, etc. Issues where members of professional (CAs, CMAs) and academic group (academicians and students) differ are fixing a maximum limit on audit fee, prohibition of non-audit services and relaxing listing requirement.

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