RESEARCH

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# Statutory Auditors' Independence in India: An Empirical Analysis from the Stakeholders' Interest Perspective

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Mitrendu Narayan Roy and Siddhartha Sankar Saha

## Executive Summary

A business projects its financial performance through its financial statements. An audited financial statement is considered to be genuine and dependable by the stakeholders of the business. Therefore, statutory auditors should be self-regulating so that they can perform their professional role without being influenced by the management. The current regulatory framework for statutory auditors defines independence requirement for a statutory auditor in a professional engagement, points out circumstances that may create threats to independence and also proposes some measures to safeguard the same. However, in recent corporate accounting scandals, company's failure led to devastating cost to the stakeholders, and audit failure was identified to be one of the causes behind them. Following investigations also sensed possible impairment of statutory auditors' independence in those scams.

In this backdrop, based on the existing literature on this subject, this article identifies variables influencing positively or negatively statutory auditors' independence in their professional engagement. Opinions of statutory auditors and select other groups of respondents were collected. Most of the respondent groups believe that statutory auditors fail to detect irregularities in financial books due to their lack of independence and professional scepticism as was observed in this study. Several legal case decisions also support this finding. A long association between a statutory auditor and a client is one of the major reasons behind statutory auditors' lack of independence. Opinions of respondents supported by applicable legal case decisions also proved that lax disciplinary measures and inadequate inspection framework caused audit failures in many recent cases.

This study also analyses a significant difference of opinion among respondent groups and identifies the groups having a similar line of thought for each variable. One-way analysis of variance (ANOVA) and Tukey's honestly significant difference (HSD) test were conducted, respectively, for these purposes. The result shows that significant differences exist among the respondent groups for most of the variables. Moreover, corporate executives have shown a significant difference of opinion from professional accountants, especially on the issue of statutory auditors' negligence. While corporate executives believe statutory auditors are negligent in their duty, professional accountants oppose their views. Applicable legal case decisions also support such findings. Investors have shown similar views in line with academicians and students.

KEY WORDS

Statutory Auditors' Independence

Stakeholders' Interest

One-way ANOVA

Tukey's HSD

The financial result of a business enterprise is projected through its profit and loss account, balance sheet and other financial reports prepared according to the applicable generally accepted accounting principles (Banerjee, 2002). Stakeholders of the business make their financial judgement based on these statements. But sometimes immoral objectives of showing an inflated financial position lead the management of a company to manoeuvre its financial statement. It sometimes even calls for the company's termination impacting most of its stakeholders. Therefore, the legitimacy and dependability of the financial statement should be certified by a proficient authority external to the business enterprise. Statutory financial auditors carry out this role. They are professional accountants appointed to check the financial statement of the company and express their opinion on the working affairs of the business (Gupta, 2005). Apart from being competent to do their job, they should be ethical towards their professional obligation. Therefore, independence of professional accountants serving as statutory auditors are of supreme importance to the stakeholders who take financial decisions based on their report. With a view to supporting statutory auditors to perform their responsibility with required integrity and objectivity, governing regulatory bodies in a country issue certain regulatory pronouncements (Bakshi, 2000). In India, chartered accountants execute the function of statutory financial auditors. With a view to ensuring their independent operation as statutory auditors and achieving quality audit from them, their governing regulatory bodies (e.g., Institute of Chartered Accountants of India, 2009, 2010; Ministry of Corporate Affairs, 2013; Securities Exchange Board of India, 2013) issue certain regulations (e.g., Code of Ethics for Professional Accountant, Standards on Auditing, Standard on Quality Control, Companies Act, 2013, and Listing Requirements) that clarify their independence requirement as a statutory auditor (Ghosh, 1999).

However, even with the existence of a strong regulatory structure, statutory audit failure has been witnessed in most of the accounting scandals in different countries (e.g., Enron Corporation Ltd. and Parmalat SpA). Statutory auditors in those companies failed to identify and report accounting wrongdoing in the company's financial statement that resulted in the company's failure affecting the country's economy and a huge segment of society. Ensuing investigation also proved statutory auditors' close nexus with management in some of those scandals (Copeland, 2005). Accounting scandal at Satyam was a classic example of statutory audit failure due to a lack of independence (Banerjee, 2011). In this company, statutory auditors certified inflated financial statement of the company as free from irregularities. They also failed to detect control deficiencies. After the revelation of the scandal, it was proved in the court of law that statutory auditors did not comply with the applicable independence requirement and aided management to commit the accounting fraud (*Central Bureau of Investigation, Hyderabad vs Subramani Gopalakrishnan*, 2011). This had put a big question mark on the integrity of the accounting and auditing profession. In this backdrop, this article seeks to analyse the perception of statutory financial auditors and respondents from other occupational groups having knowledge on this issue.

## A SURVEY OF LITERATURE

Statutory auditors' independence is a matter of huge significance in ensuring consistency and validity of financial statements prepared by a company's management. However, recent corporate accounting scandals have reflected statutory auditors' lack of judgement and scepticism in the audit of those companies. Following investigation also proved that statutory auditors were not completely independent from the management in those audit engagements. This situation brings about a great deal of concern among notable researchers all over the world. Extensive research has been conducted on this issue, causes behind the lack of independence of statutory auditors have been identified, and solutions have been proposed so that statutory auditors' independence could be safeguarded for the protection of stakeholders' interest.

An auditor plays an important role in the validation of a financial statement. Integrity, objectivity, and independence of a statutory auditor influence the utility of the financial statement (Saxena, 1993). As stakeholders take their financial decision based on the judgement of the auditors (Chakraborty, 2004), the latter should consider their interest with top precedence (Mehta, 1998; Pyne, 1995). Therefore, statutory auditors are an important segment of the entire corporate governance mechanism of the company (Garg, 2001). In some studies, scholars provided a historical count of the evolution of professionalism and independence of statutory auditors (Freier, 2004). Several studies have covered the stories of recent corporate accounting frauds (Enron, Satyam, etc.) and proved statutory auditors' lack of independence in those scandals (Arens & Elder, 2006; Copeland, 2005; Pinto & Pinto, 2006; Thibodeau & Freier, 2010). Whenever a corporate accounting scandal occurs because of a false financial statement, auditors are considered to be one of the main parties behind the fraud (Crutchley, Jensen, & Marshall, 2007; Jennings, 2003). Several authors have analysed different corporate accounting scam cases and identified several intimidation to statutory auditors' independence. The appointment procedure (Ghosh, 1999) and the provision of non-audit services (Beaulieu & Reinstein, 2006; Freier, 2004) are two such examples. We have reviewed several perception-based studies that ratify the conceptual studies. Safeguards to these threats offered by an audit client, profession or audit firm are also analysed in these studies (Fearnley, Beattie, & Brandt, 2005).

Some researchers have critically analysed the usefulness of the present regulation in protecting statutory auditors' independence (Chakrabarti, 1996; Narielvala, 1998; Rossouw et al., 2010; Shah, 2000; Singh, 2009). Compliance with applicable regulatory framework helps a statutory auditor to gain public trust (Bakshi, 2000). However, in some studies, it has been proved that the present legal structure is insufficient to address the issue of statutory auditors' independence (Dastur, 1998; Gowthrope & Blake, 1998; Maurice, 1996). Regular alteration in the current regulations and their appropriate execution could protect statutory auditors' independence (Rao, 2009). Non-compliance with applicable regulations brings punitive measures against statutory auditors. Penal sanction against statutory auditors is diverse in different countries. However, the presence of a strong disciplinary framework deters an auditor from compromising his/her independence (Bakshi, 2000). The enactment of Sarbanes Oxley Act, 2002, following the Enron scandal is considered to be a significant regulatory milestone in the history of statutory auditors' independence (Arens & Elder, 2006). Several perception-based studies have been carried out on the effectiveness of SOX Act, 2002. Subject to certain reservations, most of the authors have concluded that this new Act is very effective in improving statutory auditors' independence and corporate governance structure of a company (Carillo, 2008; Hill, McEnroe, & Stevens, 2005; Rezaee & Riley, 2002). After the enactment of SOX Act, 2002, the importance of an oversight authority is deeply realized. Oversight bodies like Public Company Accounting Oversight Board (PCAOB) supervise audit operations in a country and decrease the scope of any possible nexus between statutory auditors and management (Godbole, 2004). In the present-day environment, when statutory auditors are extending their operations in global frontiers, several authors have proposed the convergence of individual code of ethics of the individual countries and the enactment of a uniform code of conduct all over the world to help statutory auditors avoid any ethical dilemmas in cross-country audit engagements (Pendergast, 2002; Vittal, 2000).

Apart from regulatory measures, another important safeguard to statutory auditors' independence is the audit committee. It is an important board committee with majority of members as independent directors and is responsible for controlling issues that have significant influence on statutory auditors' independent operations (Godbole, 2004). Therefore, independence of the audit committee from the management can go a long way towards the effective implementation of independence requirement for statutory auditors (Tipgos & Keefe, 2004). External review of the audit work is another important safeguard to statutory auditors' independence. An independent third party makes a statutory auditor more careful about his/her independence obligation. In India, it is known as the peer review process. Studies have also compared external review in India with that of other countries of the world (Gerotra & Baijal, 2002).

All these mechanisms discussed earlier in the article externally influence statutory auditors' independence. But until the statutory auditors internally realize the need for these independence obligations, effective results cannot be obtained. Only ethics and values can internally guide a person to attain a cherished result. Therefore, ethics has always remained an important area of research under this theme. Some researchers focused on the concept of ethics, its evolution, and different ethical concepts proposed by ethical leaders of our society (Duska, Duska, & Ragatz, 2011; Maurice, 1996) while others conducted several perception-based studies with advanced statistical tools to analyse ethical dilemmas faced by statutory auditors and the means to resolve them (Jeffrey, 2004; Roy, 1997; Zadek, Pruzan, & Evans, 1997). An ethical audit gives a statutory auditor enormous contentment which cannot be measured in monetary terms (Chauhan & Gupta, 2007). However, in the present sociopolitical environment, ethics and values are incessantly decreasing not only in auditing profession but in every sphere of our life (Ghosh, 1999; Ray, 1995). Tainted family values, ethical sense and cultural framework are the main reasons behind recent ethical failures. Accounting regulators, business, audit firms, and academic institutes should work hand in hand to provide a moral framework for statutory auditors (Copeland, 2005; Mayper et al., 2005). Ethical orientation of a person in this profession can get better only through education, practical training, and orientation programmes.

Some authors affirmed that the present curriculum for professional accountants was not sufficient to improve their ethical orientation (Ravenscroft & Williams, 2004). Therefore, a complete modification of the accounting course was proposed with an emphasis on ethics (Arens & Elder, 2006; Banerjee, 1993; Chakraborty, 2008; Earley & Kelly, 2004; Ghaffari, Kyriacou, & Brennan, 2008; Gowthrope & Blake, 1998). Criminology, psychology, and other behavioural sciences should also come under the purview of the current curriculum of professional courses (Curtis, 2008). Based on different statistical methods, the impact of an accounting scandal on the moral thinking of prospective statutory auditors was also analysed. It was thus found that practical training on ethical needs would help statutory auditors to understand the regulations with a practical approach and to resolve their ethical dilemmas in professional engagements (Bakshi, 2000; Lomax, 2003).

In recent times, researchers have identified some emerging areas in auditing that could play an important role in reducing accounting scandals. One such area is forensic audit where statutory auditors along with experts from other professions investigate the financial misdeed by a company and propose solutions. Forensic audit is also gaining importance in the current accounting curriculum (Curtis, 2008).

## RESEARCH GAP

From the above discussion, it is clear that researchers, who have contributed their considerate opinion on this issue, identified specific threats and safeguards to statutory auditors' independence. Ethics and values are important considerations for independent operation of statutory auditors. Therefore, many studies have incorporated ethics as an important determinant of statutory auditors' independence. Several perception-based studies on independence or ethics with complex statistical techniques have been reviewed as well. Studies reviewed so far have only dealt with specific issues that positively or negatively affect statutory auditors' independence. There is, however, an absence of a comprehensive discussion taking into consideration all the issues together. Besides, the perception of only statutory auditors has been considered so far. But the opinion of other respondent groups that by virtue of their occupation are closely related with the statutory audit process or are in a position to give an opinion on this issue has not been considered in those studies. This gap in the existing literature prompts us to take up this current study and empirically analyse the opinion of statutory auditors and other groups of respondents on statutory auditors' independence for protecting stakeholders' interest.

## OBJECTIVES OF THE STUDY

The major objectives of the study are as follows:

1. To analyse the overall opinion of sample respondents from each occupational category on select variables influencing statutory auditors' independence.
2. To empirically analyse the significant difference in the opinion of select occupational groups for those variables.
3. To statistically group individual respondent categories for select variables based on a significant difference of opinion among them.
4. To draw a suitable conclusion on statutory auditors' independence for protecting stakeholders' interest.

## RESEARCH METHODOLOGY

### Data

This study is exploratory in nature and is based on both primary and secondary data, the latter being collected from books, journal articles, newspaper articles, and legislations. Several legal case decisions in India especially of the Supreme Court of India involving statutory auditors' duties and responsibilities in different companies were also considered, as they have direct bearing on the interpretation of various laws, rules, and regulations governing statutory auditors' independence. Primary data were collected from Kolkata, West Bengal, during June 2011 to December 2013 through pretested, close-ended, and structured questionnaire. Through convenience sampling (Ho, Ong, & Seonsu, 1997), respondents were selected from different occupational groups, for example, chartered accountants, cost and management accountants, academicians, students, investors, and corporate executives. The rationales for selecting individual respondent categories and profile of respondents are given in Tables A1 and A2.

Based on books, research papers and judicial case decisions, 25 variables were selected. These variables were converted into statements and incorporated in the questionnaire with 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)) (Kothari, 2010).

## Analysis of Collected Data

The mean sample score of each respondent category for each variable was calculated in addressing the first objective of the study. Mean scores represent the opinion of a particular respondent group. As far as the second objective is concerned, one-way analysis of variance (ANOVA) was conducted to analyse significant difference of opinion among respondent groups. Finally, Tukey's honestly significant difference (HSD) test was conducted in order to group individual respondent categories into homogeneous subsets. SPSS 17.0 was exercised for the purpose of analysis.

## Selection of Variables

From the literature survey, variables that positively or negatively influenced statutory auditors' independence in a professional engagement were identified (Table 1).

**Table 1: Variables Influencing Statutory Auditors' Independence**

| | Statements | Rationale for Variable Selection based on Secondary Data and Legal Cases Decision at the Judiciary |
|---|---|---|
| $V_1$ | Negligence of Statutory Auditors | Stakeholders of a business depend upon statutory auditors' opinion. Hence, negligence on the part of statutory auditor is a contravention of Clauses 6, 7, and 8 of Part I of the 2nd Schedule of Chartered Accountants Act, 1949 (Ministry of Corporate Affairs, 1949).<br>Cases at judiciary from long past have shown instances of statutory auditors' negligence (refer to *Tri-Sure India Ltd. vs A.F. Ferguson and Co. and Others*, 1985; *Council of Institute of Chartered Accountants of India vs Shri S.N. Sachdeva*, 2011; *Institute of Chartered Accountants of India vs Rajesh Chadha*, 2012; *Subrata Chattoraj vs Union of India & Others*, 2014). Court judgements in all of these cases proved gross negligence by statutory auditors. |
| $V_2$ | Sufficiency of Regulatory Framework | Insufficiency in regulatory framework often fails to redress statutory auditors' ethical dilemma which ultimately lead them to compromise their independence. In our country, regulatory framework comprising Companies Act, 2013, Chartered Accountants Act, 1949, and Code of Ethics provide sufficient regulatory support to statutory auditors' independence.<br>Sufficiency of regulatory framework was a governing issue of statutory auditors' independence in an old case of *Fraser and Ross, Chartered Accountants vs Sambasiva Iyer and Others* (1968). |
| $V_3$ | Lack of Enforceability of Regulatory Framework | If regulatory framework governing statutory auditors is not properly enforced, their independence is not protected. In recent cases, relating to statutory audit failure, it was observed that statutory auditor did not comply with applicable SAs while performing audit engagements (*Price Waterhouse & Co. vs Securities and Exchange Board of India*, 2010).<br>There was also contravention of Chartered Accountants Act, 1949 (refer to *Council of Institute of Chartered Accountants of India vs Praveen Kumar Katyal*, 2011) and Code of Ethics (refer to *Yogeshwari Kumari vs Institute of Chartered Accountants of India*, 2010). All these cases certainly raise our concern on appropriate enforcement of existing regulation. |
| $V_4$ | Procedure of Appointment of Statutory Auditors | If management of the audit client controls appointment of statutory auditors, they could easily be intimidated to give opinion in management's favour.<br>At Satyam, there was deficiency in control structure (refer to *Subramani Gopalakrishnan vs Institute of Chartered Accountants of India*, 2011). It allowed management to control the appointment procedure. |
| $V_5$ | Appointment by Independent Authority | In government companies, appointment of statutory auditors is made on recommendation of the government (refer to *Gurugobinda Basu vs Sankari Prasad Ghosal*, 1963). In such companies, possibilities of management's influence in appointment procedure are quite less. Appointment made by an independent regulatory authority could safeguard statutory auditors from threats arising out of appointment procedure. |
| $V_6$ | Long Association between Statutory Auditor and Client | Long association between statutory auditor and client creates a nexus between them. In recent cases, statutory auditors were associated with their client for a long period. In *Subramani Gopalakrishnan vs Institute of Chartered Accountants of India* (2011), the auditors were associated with the company for a period of 7 years. Now, as per the recent Companies Act, 2013 which states that individual auditors are not allowed to be associated with client for a period beyond 5 years, it was a clear contravention of existing regulation. |
| $V_7$ | Rotation of Statutory Auditor | Continuous rotation of auditor could break the nexus created due to long association. Recent provisions in Companies Act, 2013 could reduce familiarity threats to statutory auditors' independence. |

*Table 1 continued*

*Table 1 continued*

| | Statements | Rationale for Variable Selection based on Secondary Data and Legal Cases Decision at the Judiciary |
|---|---|---|
| $V_8$ | Maximum Limit of Audit Fee | High remuneration makes a statutory auditor financially dependent on the management. A limit to such economic dependence is therefore needed. In the legal case *Gurugobinda Basu vs Sankari Prasad Ghosal* (1963), auditors received remuneration from two companies which were at conflicts of interest between themselves. It was a contravention of Companies Act, 1956.<br>In *Subramani Gopalakrishnan vs Institute of Chartered Accountants of India* (2011), statutory auditors received exorbitant fees for audit and non-audit services.<br>In the legal case *Shri Mahendra Kumar Mahajan vs Institute of Chartered Accountants of India* (2012), auditors received fees both as auditors and members of management. All these real life case examples prompt us to propose a maximum limit to the total remuneration that can be paid to an auditor. |
| $V_9$ | Close Relationship between Statutory Auditor and Management | Close relationship with management members often influence an auditor to issue a clean report without undertaking proper audit procedure. There are several instances where auditors were closely related with members of the client company.<br>In the legal case *Shri Mahendra Kumar Mahajan vs Institute of Chartered Accountants of India* (2012), the partner of the accounting firm was also in the managing board of the client. In the legal case, *Yogeshwari Kumari vs Institute of Chartered Accountants of India* (2010), the auditor was also the director of the company. It was a contravention of Code of Ethics. |
| $V_{10}$ | Provision for Non-Audit Services | Certain non-audit services by statutory auditors sometimes influence independent review process. In several recent cases, it was observed that auditors provided consultancy services to the company contravening the code of ethics, for example, *Institute of Chartered Accountants of India vs L.K. Ratna & Others* (1986); *Talluri Srinivas vs Institute of Chartered Accountants of India* (2010); *Council of Institute of Chartered Accountants of India vs Praveen Kumar Katyal* (2011).<br>In some other legal cases, statutory auditors provided certain services without taking permission from the professional institute which held them responsible for contravening Chartered Accountants Act, 1949. Other such cases are: *Fraser and Ross, Chartered Accountants vs Sambasiva Iyer and Others* (1968); *N.K. Gupta vs Institute of Chartered Accountants of India* (1990); *Council of Institute of Chartered Accountants of India vs Shri S.N. Sachdeva* (2011), etc. |
| $V_{11}$ | Prohibition of Non-Audit Services | Complete prohibition of non-audit services by statutory auditors could be solution to the aforesaid problem. Recent Companies Act, 2013 have specified some services which could not be provided by an auditor to its audit client. |
| $V_{12}$ | Strong Disciplinary Framework | Strong disciplinary framework discourages statutory auditors to get involved in professional misconducts. Disciplinary Committee of ICAI decides on the disciplinary sanction against a statutory auditor based on severity of his crime. Professional misconduct as defined in Chartered Accountants Act, 1949 attracts disciplinary sanction.<br>In India highest disciplinary sanction was provided to statutory auditors at Satyam. It was imprisonment and cancellation of membership certificate (refer to *Central Bureau of Investigation, Hyderabad vs Subramani Gopalakrishnan*, 2011). However, in most of the cases, statutory auditors are either reprimanded (*Council of Institute of Chartered Accountants of India vs Shri S.N. Sachdeva*, 2011) or their names are removed from the list of practicing members for a period ranging from 1 to 3 years (refer to *Institute of Chartered Accountants of India vs Rajesh Chadha*, 2012; *Council of Institute of Chartered Accountants of India vs K.K. Gupta*, 2008).<br>In some of these legal cases, sometimes the defendant auditor files a petition against the punitive action taken against them. Based on merit of the case, the court may approve or dismiss their appeal. Hence, a strong and effective disciplinary framework is a prerequisite of independent audit. |
| $V_{13}$ | Strengthening Audit Committee | Audit Committee is an independent board committee nominated by the shareholders to look after their interest by keeping a constant oversight on statutory auditors' selection and performance. Strengthening competence and independence of this committee will safeguard statutory auditors' independence.<br>In some known scandals (refer to *Subramani Gopalakrishnan vs Institute of Chartered Accountants of India*, 2011), internal control system was not sufficient and the Audit Committee failed to perform its role. The result is well known to us. Hence, a strong Audit Committee is also required for helping auditors in independent audit process. |
| $V_{14}$ | Effectiveness of Peer Review Committee | Compliance of technical and ethical standard in an audit engagement is reviewed by a select member of the Peer Review Committee under Council of Chartered Accountants of India. This mechanism enforces existing regulation on statutory auditors' independence. In some cases, regulatory authorities in India conduct separate audit in the company's books and find out the lacuna in existing audit procedures.<br>In the legal case *Partha Ghosh vs Institute of Chartered Accountants of India* (2009), special audit done by RBI identified some irregularities which could not be found by the auditors.<br>Though peer review enforced by ICAI is a comprehensive mechanism, in legal case *P. Rama Krishna vs Institute of Chartered Accountants of India* (2010), it was observed that both audit partner and concurring review partner in the client company was from the same accounting firm. Hence, the review was not an independent review. Effectiveness of peer review mechanism is thus an important tool to ensure statutory auditors' independence. |

*Table 1 continued*

*Table 1 continued*

| | Statements | Rationale for Variable Selection based on Secondary Data and Legal Cases Decision at the Judiciary |
|---|---|---|
| $V_{15}$ | Modification in Company Law | Recent introduction of Companies Act, 2013 incorporates certain new provisions aiming at protection of statutory auditors' independence. Its provisions relating to rotation of auditors, non-audit services are some of them. |
| $V_{16}$ | Establishment of Oversight Authority | Recent Companies Act, 2013 mandates establishment of National Financial Reporting Authority (NFRA) which, with many of its other activities, is supposed to oversee audit operations in the country. It is expected to enforce regulatory pronouncements on statutory auditors' independence. |
| $V_{17}$ | Need for Ethical Education | Ethical education in every sphere of life could help a person to understand the true meaning of ethics and its impact on their decision making (Mayer et al., 2005). |
| $V_{18}$ | Incorporation of Ethics in Accounting Curriculum | Inclusion of ethics in professional accounting curriculum could help a statutory auditor to understand the ethical implication of their every professional decision (Ghaffari et al., 2008). |
| $V_{19}$ | Need for Awareness Programme by ICAI | Awareness programmes on ethics could facilitate a practical approach to the ethical knowledge. This sometimes may prove to be beneficial in resolving ethical dilemma. |
| $V_{20}$ | Need for Orientation Programme by ICAI and Academic Institute | A constructive collaboration between professional bodies and academic world could facilitate exchange of ideas in a wide spectrum. It will result in improvement in accounting curriculum and ethics will get a special importance in it (Copeland, 2005). |
| $V_{21}$ | Need for Practical Training to Resolve Ethical Conflict | Practical training on ethics directly addresses ethical problems faced by a statutory auditor. Legal case *Fraser and Ross, Chartered Accountants vs Sambasiva Iyer and Others* (1968) shows that lack of statutory auditors' independence was mostly due to statutory auditors' lack of ethical awareness which could be improved through broad academic training. |
| $V_{22}$ | Rewarding Statutory Auditors for Ethical Practice | If statutory auditors get rewarded for ethical performance, it might provide other auditors some impetus to be ethical in their future engagements. |
| $V_{23}$ | Uniformity of Code of Conduct | In cross-country audit engagements, auditors falter in their ethical duty by using the loopholes of regulatory mismatch in two countries. This situation could be avoided if regulatory framework across the globe were uniform (Vittal, 2000). |
| $V_{24}$ | Lucidity in Audit Report | Most of the investors do not have technical knowledge in the fields of accounting or auditing. Hence, Audit Report should be made more lucid for understanding of the common investors. |
| $V_{25}$ | Mass Media's Role of Public Awareness on Audit Ethics | In this media-centric environment, ethical awareness of auditors should be spread with the help of newspaper, television, and social networking sites. It could improve the current situation. |

**Source:** Authors' compilation from legislations, case decisions at the Judiciary and research papers.

Perceptions of 601 respondents from different occupations on these variables were collected using a pretested, close-ended, and structured questionnaire based on the method specified in the research methodology.

## Demographic Profile of Respondents

A brief demographic profile of the respondents is given in Table 2.

Table 2 reflects the general characteristics of the sample: Small proportion of female respondents indicates male domination in the sample. Demographic profile of respondents based on their age signifies that respondents with diverse level of experience have participated in the study.

Sample respondents were selected on the basis of their occupation. From the demographic profile, it is clear that there was maximum participation from academic communities (academicians and students), followed by statutory auditors – Chartered Accountants (CAs) and Cost & Management Accountants (CMAs). Other two groups are also important for the current research. Though the proportion of respondents from investors and corporate executives is less than the other four groups, their considerable participation makes the total sample a balanced one.

## RESULTS AND DISCUSSION

### Analysis of Overall Opinion of Individual Respondent Categories for Each Variable

The opinion of respondents on each of the select variables was incorporated in a data sheet and analysed with the help of a statistical software. As mentioned in the research methodology, each respondent's degree of agreement with a particular variable was represented by a score. After incorporating the data in the statistical software, the mean score of each respondent category and the overall mean score for each variable was calculated. As '3' represented a 'neutral' opinion of a respondent, scores more than 3 signified agreement with a particular variable and vice versa. Opinions of each respondent group or the entire sample for a particular variable were obtained from these mean scores. Respondent categories with mean scores greater than the overall average had greater degree of agreement with a particular variable than the rest. Important observations in this regard are shown in Table 3.

**Table 2: Demographic Profile of Respondents**

**Demographic Profile Based on Gender**

| Male | % | Female | % |
|---|---|---|---|
| 522 | 86.9 | 79 | 13.1 |

**Demographic Profile Based on Age**

| Young (Age less than 30 years) | % | Middle Aged (Age between 30 and 50 years) | % | Experienced (Age more than 50 years) | % |
|---|---|---|---|---|---|
| 194 | 32.3 | 279 | 46.4 | 128 | 21.3 |

**Demographic Profile Based on Occupation**

| CA | % | CMA | % | Academician | % | Student | % | Investor | % | Corporate Executive | % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 101 | 16.8 | 94 | 15.6 | 111 | 18.5 | 118 | 19.6 | 86 | 14.3 | 91 | 15.1 |

**Source:** Compilation of primary data using SPSS.

**Table 3: Mean Scores of Individual Respondent Categories and Overall Mean Scores**

| Variable | Variable Name | CA | CMA | Academician | Student | Investor | Corporate Executive | Overall Average Score |
|---|---|---|---|---|---|---|---|---|
| $V_1$ | Negligence of Statutory Auditors | 3.43 | 3.69 | 3.83 | 3.82 | 3.33 | 3.22 | **3.57** |
| Entire sample agrees that statutory auditors were negligent in performing their duties. Degree of agreement of academicians, students and CMAs are more than other three categories. | | | | | | | | |
| $V_2$ | Sufficiency of Regulatory Framework | 3.46 | 2.87 | 2.55 | 2.74 | 3.36 | 3.36 | **3.03** |
| All the sample respondents are neutral to the issue of sufficiency of regulatory framework. Degree of agreement of CAs, investors and corporate executives are higher than the other three categories. | | | | | | | | |
| $V_3$ | Lack of Enforceability of Regulatory Framework | 2.98 | 3.48 | 3.79 | 3.57 | 3.2 | 3.43 | **3.42** |
| All the sample respondents agree with this variable. They think regulatory framework for statutory auditors are not properly enforced. Academicians, CMAs, students and corporate executives show a higher degree of agreement than the other two categories. | | | | | | | | |
| $V_4$ | Procedure of Appointment of Statutory Auditors | 3.5 | 3.41 | 3.74 | 3.03 | 3.21 | 3.23 | **3.36** |
| Overall sample respondents are slightly inclined to agreement with this variable. They think that procedure of appointment slightly influences statutory auditors' independence. Extent of agreement of CAs, CMAs, and academicians are higher than students, investors, and corporate executives. | | | | | | | | |
| $V_5$ | Appointment by Independent Authority | 3.21 | 3.53 | 3.73 | 3.36 | 3.34 | 3.32 | **3.42** |
| Average score of all respondents shows that all the respondents partially advocate establishment of an independent appointing body. CMAs and academicians have high degree of agreement with this variable than the other four respondent categories. | | | | | | | | |
| $V_6$ | Long Association between Statutory Auditor and Client | 3.6 | 4.05 | 4.12 | 3.69 | 4.15 | 4.16 | **3.95** |
| All respondents together believe that long period of association between statutory auditors and management impairs former's independence. CMAs, academicians, investors and corporate executives have a strong inclination towards this issue whereas CAs and students only agree with this statement. | | | | | | | | |

*Table 3 continued*

*Table 3 continued*

| Variable | Variable Name | CA | CMA | Academician | Student | Investor | Corporate Executive | Overall Average Score |
|---|---|---|---|---|---|---|---|---|
| $V_7$ | Rotation of Statutory Auditor | 3.79 | 4.06 | 4.13 | 3.86 | 4.21 | 4.19 | **4.03** |
| All respondents together agree with the statement that rotation of auditor could safeguard statutory auditors' independence. CMAs, academicians, investors and students have strong agreement with this issue whereas CAs and students only agree with it. | | | | | | | | |
| $V_8$ | Maximum Limit of Audit Fee | 2.29 | 3.01 | 3.3 | 3.32 | 2.99 | 3.26 | **3.04** |
| All respondents are neutral in their approach towards fixing a maximum limit on total fees for statutory auditors. Students and Corporate Executives however slightly believe that there should be a maximum limit on total fees for auditors. CAs clearly disagrees with this proposal. | | | | | | | | |
| $V_9$ | Close Relationship between Statutory Auditor and Management | 4.57 | 4.39 | 4.49 | 4.08 | 4.21 | 4 | **4.29** |
| All respondents together believe that close relationship between statutory auditors and management impairs their independence. CAs, CMAs and Academicians strongly believe this fact whereas other three categories only agree with it. | | | | | | | | |
| $V_{10}$ | Provision for Non-Audit Services | 3.06 | 3.33 | 3.53 | 3.39 | 3.14 | 3.14 | **3.28** |
| All respondents are slightly inclined to agree with the statement that provision for non-audit services impairs statutory auditors' independence. Degree of agreement of CMAs, academicians and students are more than the other three categories. | | | | | | | | |
| $V_{11}$ | Prohibition of Non-Audit Services | 2.53 | 2.76 | 3.18 | 3.31 | 2.78 | 3 | **2.95** |
| All the respondents together are neutral to the suggestion of prohibiting non-audit services for statutory auditors. Degree of disagreement with this statement for CAs, CMAs and investors are more than the other three categories. | | | | | | | | |
| $V_{12}$ | Strong Disciplinary Framework | 3.94 | 4.07 | 4.17 | 3.9 | 4.37 | 4 | **4.07** |
| All the respondents together believe that existence of a strong disciplinary framework could safeguard statutory auditors' independence. Academicians and investors have high degree of agreement with this issue than rest of the four respondent categories. | | | | | | | | |
| $V_{13}$ | Strengthening Audit Committee | 2.5 | 3 | 3.94 | 3.87 | 3.62 | 3.86 | **3.48** |
| All respondents slightly agree that Audit Committee should be strengthened to safeguard statutory auditors' independence. CAs, CMAs with average score less than overall average score are neutral to the effectiveness of this safeguard whereas other four categories closely believe that Audit Committee could be an important solution to protection of stakeholders' interest. | | | | | | | | |
| $V_{14}$ | Effectiveness of Peer Review Committee | 3.34 | 3.35 | 3.86 | 3.78 | 3.53 | 3.35 | **3.55** |
| From the overall average score, it can be can be inferred that the entire sample slightly agrees with the statement that peer review committee is an effective mechanism for safeguarding statutory auditors' independence. CAs, CMAs, investors and corporate executives with average scores of less than overall score are neutral to the effectiveness of this measure where other two groups do advocate its effectiveness. | | | | | | | | |
| $V_{15}$ | Modification in Company Law | 3.44 | 3.76 | 3.84 | 3.87 | 3.62 | 3.71 | **3.71** |
| From the overall average score, it can be inferred that all the respondents support modification in the company's law. Degree of agreement with this statement for CAs and Investors are less than other four categories. | | | | | | | | |
| $V_{16}$ | Establishment of Oversight Authority | 3.63 | 3.89 | 3.99 | 3.98 | 3.53 | 2.96 | **3.69** |
| Overall average score exhibits agreement of overall sample respondents with this statement. They believe an oversight authority could improve present situation. Degree of agreement with this statement for CAs, Investors, and Corporate Executives are less than other three categories. | | | | | | | | |
| $V_{17}$ | Need for Ethical Education | 3.73 | 4.01 | 3.93 | 3.81 | 3.78 | 3.93 | **3.87** |
| All respondents agree that ethical education is extremely needed for improving statutory auditors' independence. Degree of agreement of Academicians, Students, and Corporate Executives with this statement is more than other three categories. | | | | | | | | |

*Table 3 continued*

*Table 3 continued*

| Variable | Variable Name | CA | CMA | Academician | Student | Investor | Corporate Executive | Overall Average Score |
|---|---|---|---|---|---|---|---|---|
| $V_{18}$ | Incorporation of Ethics in Accounting Curriculum | 3.71 | 3.98 | 3.85 | 3.92 | 3.73 | 3.92 | **3.85** |
| From overall average score, it can be observed that all respondents believe that ethics should be incorporated in current accounting curriculum. Level of inclination of CAs and investors with this statement is less than that of the other four categories. | | | | | | | | |
| $V_{19}$ | Need for Awareness Programme by ICAI | 3.72 | 3.9 | 4.1 | 3.97 | 4.03 | 3.86 | **3.94** |
| All the sample respondents think that awareness programmes could improve ethical orientation of a statutory auditor. Degree of agreement of academicians, students and investors with this statement is more than that of the other three categories. | | | | | | | | |
| $V_{20}$ | Need for Orientation Programme by ICAI and Academic Institute | 3.56 | 3.95 | 4.09 | 3.93 | 3.94 | 3.87 | **3.89** |
| Overall respondents exhibit an agreement with the proposal of introducing orientation programmes by ICAI and Academic Institutes for statutory auditors. CMAs, academicians, students and investors have high degree of agreement with this measure in comparison to the other two categories. | | | | | | | | |
| $V_{21}$ | Need for Practical Training to Resolve Ethical Conflict | 3.52 | 3.88 | 4.05 | 3.81 | 4.01 | 3.87 | **3.86** |
| All the respondents believe that practical training for statutory auditors could resolve their ethical dilemmas and help them to work more independently. From the average score of individual respondent categories, the degree of agreement with this statement is more for CMAs, Academicians, Investors and Corporate Executives in comparison with the other two respondent categories. | | | | | | | | |
| $V_{22}$ | Rewarding Statutory Auditors for Ethical Practice | 2.86 | 3.37 | 3.94 | 4.03 | 3.67 | 4.13 | **3.68** |
| The entire sample believes that rewarding a statutory auditor could encourage them to perform ethically and independently. Academicians students, and corporate executives agree to this statement whereas other three categories represent a neutral approach. | | | | | | | | |
| $V_{23}$ | Uniformity of Code of Conduct | 2.61 | 3.49 | 3.71 | 3.89 | 3.4 | 3.27 | **3.42** |
| From the overall average score, it can be inferred that all the respondents are neutral to the necessity for implementing uniformity of code of conduct. Where CAs, investors and corporate executives show a neutral approach, other three respondent categories slightly believe that uniformity could resolve ethical confusions in cross-country engagements. | | | | | | | | |
| $V_{24}$ | Lucidity in Audit Report | 3.03 | 3.37 | 3.94 | 4.06 | 3.42 | 3.32 | **3.55** |
| From the overall average score, it can be inferred that all the respondents agree with bringing more lucidity in the audit report. Academicians, and students, with an average score of more than overall average, clearly support this move whereas the other four respondent categories are neutral in their approach. | | | | | | | | |
| $V_{25}$ | Mass Media's Role of Public Awareness on Audit Ethics | 2.67 | 3.01 | 3.62 | 3.7 | 3.08 | 3.16 | **3.24** |
| All the respondents show a neutral approach to involvement of mass media. Academicians and students believe mass media should play a role. But other four categories are neutral in their approach. | | | | | | | | |

**Source:** Compilation of primary data using SPSS.

Following inferences can be drawn from Table 3:

All the respondents believed that statutory auditors were negligent in performing their duties in the case of recent corporate setbacks. Some of the legal cases, referred to in this study, also point to the same conclusion. In some of these cases, statutory auditors failed to verify assets of the company (refer to *Council of Institute of Chartered Accountants of India vs V Rajaram of V Rajaram and Co.*, 1959), while in some other cases, they failed to perform with due diligence (refer to *Council of Institute of Chartered Accountants of India vs R Ayyavoo*, 2003). There were some cases where statutory auditors published their report without collecting sufficient and appropriate pieces of evidence on a particular issue (*refer to Narayanan Nambudiri vs Institute of Chartered Accountants of India*, 2005). In a nutshell, there are ample examples where statutory auditors failed to detect irregularities in the books of accounts of a corporate enterprise (refer to *Council of Institute of Chartered*

*Accountants of India vs R N Bahl*, 2006). Some audit failures were due to absolute negligence on the part of the auditor, while others were due to their alleged lack of independence. All these legal case examples support the empirical finding of this study that statutory auditors are negligent in performing their duties.

Long association with audit client and close relationship with management impairs a statutory auditor's independence in a professional engagement. In the legal case, *Tri-Sure India Ltd. vs AF Ferguson and Co. and Others* (1985), statutory auditors were associated with the client for a long period of time. However, at that time, rotation of the auditor was not a mandatory requirement. The result on close professional relationship is also supported by the legal case *Subramani Gopalakrishnan vs Institute of Chartered Accountants of India* (2011).

Rotation of the auditor, maximum limit of audit fee, strong disciplinary framework, external review of audit work, modification in company law, establishment of oversight authority, and all the activities that go on improving ethical orientation of statutory auditors have been proposed as a measure of solution by the entire sample. Cases like Satyam (refer to *Talluri Srinivas vs Institute of Chartered Accountants of India*, 2010) could be avoided if there was a limit on the total remuneration at the time of the Satyam scandal. A strong disciplinary structure could also escape many more fraud cases (refer to *Council of Institute of Chartered Accountants of India vs Praveen Kumar Katyal*, 2011) that took advantage of the lax disciplinary framework. Individual respondents are widely segmented among themselves for their opinion on each variable.

In most of the cases, the sample from academic community is found to behave uniformly. On the other hand, statutory auditors represented by CAs and CMAs have similar views on some issues. Corporate executives mostly go with the views of academic community. Investors are rather sceptical on the solutions provided to improve statutory auditors' independence.

## Analysis of Significant Difference in the Opinion of Select Occupational Groups

With a view to analyse the significant difference in the opinions of select respondent categories, the following steps were taken:

1. ***Hypothesis***. The opinion of individual respondent categories is represented by their mean scores. Therefore, with a view to test whether a significant difference exists in the opinion of the population of individual respondent categories, the following null and alternate hypotheses were proposed:

Null Hypothesis ($H_0$): Population mean of individual respondent categories are equal.

Alternate Hypothesis ($H_1$): Population mean of any two respondent categories are not equal.

2. ***Statistical Test***. With a view to test the aforesaid hypotheses for each of the variables selected under this study, one-way ANOVA (Driscoll, 1996) was conducted. It is a parametric test conducted to determine whether an independent variable has an influence on the dependent observations. In this study, the occupation of respondents is the independent variable. If significant difference does not exist among individual respondent categories, it can be inferred that occupation does not have significant influence on individual observations of respondents.

3. ***Test Statistics***. Test statistics ($F$) in one-way ANOVA is calculated based on the following formula (Kothari, 2010):

$$F = \text{MS}_{\text{between}} / \text{MS}_{\text{within}},$$

where MS (Mean Square) $_{\text{between}}$ = SS (Sum of Square) $_{\text{between}}/(\text{C} - 1)$; MS $_{\text{within}}$ = SS $_{\text{within}}/(\text{N} - \text{C})$.

$$\text{SS within} = \sum_{j}^{c} \sum_{i}^{n} (Y_{ij} - \overline{Y_j})^2$$

$$\text{SS between} = \sum_{j=1}^{c} n_j \, (\overline{Y_j} - \overline{\overline{Y}})^2$$

$\overline{Y_j}$ = Mean for category $j$

$\overline{\overline{Y}}$ = Mean over the whole sample or grand mean

$Y_{ij}$ = $i$th observation in the $j$th category

C = Number of categories

N = Total sample size.

4. ***Degree of Freedom (DF)***. Degree of freedom is the number of values in the final calculation of statistics that are allowed to vary. For one-way ANOVA,

mean squares are calculated by dividing the sum of squares by their respective DF. Therefore, in one-way ANOVA, there are two DFs: C – 1 and N – C. In this study, the number of categories is 6 and the total sample size is 601. Therefore, DFs calculated for each variable under study is 6 – 1 and 601 – 6, that is, 5 and 595, respectively.

5. ***Level of Significance***. The level of significance refers to the probability of rejecting a true null hypothesis. If the level of significance for a particular research is 5 per cent, it may be inferred that the decision of acceptance or rejection of the null hypothesis is 95 per cent true. In social science research, this level of significance may vary from 1 per cent to 10 per cent. This study has considered 5 per cent level of significance.

6. ***Decision Rule***. With a view to taking decision on acceptance or rejection of the null hypothesis for a particular variable, this study used the *F* distribution table to find out a value very close to the test statistics at 5,595 DFs. For this value, the corresponding (*P*-value) was then identified. This is the probability of getting the test statistics at 5,595 DFs. If it is at more than 5 per cent significance level, the test statistics is considered to be in the acceptance region. So, $H_0$ is accepted. But if this probability is less than 5 per cent, $H_0$ is rejected, following the same rule. Accordingly, inferences are drawn on the significant difference of opinion between respondent categories for select variables and the impact of occupation on the opinion of respondents.

Based on the data collected from the sample respondents, the result of one-way ANOVA and the inferences for each categorical variable have been incorporated in Table 4.

**Table 4: Result of One-way ANOVA**

| Variable | Null Hypotheses (H0) | F | P-value | Decision Rule | Decision on Acceptance of H0 | Inferences |
|---|---|---|---|---|---|---|
| $V_1$ | Population mean of each occupational category for the variable *Negligence of Statutory Auditors* is equal | 5.036 | 0.000 | P Value <0.05 | Rejected | Occupational categories are significantly different in their opinion on Negligence of Statutory Auditors. |
| $V_2$ | Population mean of each occupational category for the variable *Sufficiency of Regulatory Framework* is equal | 13.023 | 0.000 | P Value <0.05 | Rejected | There is significant difference in the opinion of respondent categories on Sufficiency of Regulatory Framework for Statutory Auditors. |
| $V_3$ | Population mean of each occupational category for the variable *Lack of Enforceability of Regulatory Framework* is equal | 7.899 | 0.000 | P Value <0.05 | Rejected | Occupation of respondents has significant impact on their opinion on Enforceability of Regulatory Framework. |
| $V_4$ | Population mean of each occupational category for the variable *Procedure of Appointment of Statutory Auditors* is equal | 5.377 | 0.000 | P Value <0.05 | Rejected | Important divergence exists in the perception of respondent categories for impact of procedure of appointment on statutory auditors' independence. |
| $V_5$ | Population mean of each occupational category for the variable *Appointment by Independent Authority* is equal | 2.419 | 0.035 | P Value <0.05 | Rejected | Statistical difference exists in the opinion of respondent categories on establishment of an independent appointing authority. |
| $V_6$ | Population mean of each occupational category for the variable *Long Association between Statutory Auditor and Client* is equal | 6.531 | 0.000 | P Value <0.05 | Rejected | Respondent categories are statistically different in their opinion on impact of long association between statutory auditors and management on the independence of the former. |
| $V_7$ | Population mean of each occupational category for the variable *Rotation of Statutory Auditor* is equal | 3.283 | 0.006 | P Value <0.05 | Rejected | Significant difference prevails among respondent categories for their opinion on rotation of statutory auditors as an important safeguard to statutory auditors' independence. |

*Table 4 continued*

*Table 4 continued*

| Variable | Null Hypotheses (H0) | F | P-value | Decision Rule | Decision on Acceptance of H0 | Inferences |
|---|---|---|---|---|---|---|
| $V_8$ | Population mean of each occupational category for the variable *Maximum Limit of Audit Fee* is equal | 11.127 | 0.000 | P Value <0.05 | Rejected | Occupational categories are statistically different in their opinion on impact of fees on statutory auditors' independence. |
| $V_9$ | Population mean of each occupational category for the variable *Close Relationship between Statutory Auditor and Management* is equal | 7.164 | 0.000 | P Value <0.05 | Rejected | Occupation has a significant impact on the opinion of respondent on impact of close relationship between statutory auditors and management on the independence of statutory auditor. |
| $V_{10}$ | Population mean of each occupational category for the variable *Provision for Non-Audit Services* is equal | 2.765 | 0.018 | P Value <0.05 | Rejected | Noteworthy difference exists among occupational categories on impact of non-audit services on statutory auditors' independence. |
| $V_{11}$ | Population mean of each occupational category for the variable *Prohibition of Non-Audit Services* is equal | 7.384 | 0.000 | P Value <0.05 | Rejected | Occupational categories are significantly divergent in their opinion on prohibition of non-audit services. |
| $V_{12}$ | Population mean of each occupational category for the variable *Strong Disciplinary Framework* is equal | 3.065 | 0.010 | P Value <0.05 | Rejected | There is significant divergence in the opinion of respondents on effectiveness of strong disciplinary framework in safeguarding statutory auditors' independence. |
| $V_{13}$ | Population mean of each occupational category for the variable *Strengthening Audit Committee* is equal | 39.691 | 0.000 | P Value <0.05 | Rejected | Occupational categories are significantly distinct in their opinion on effectiveness of Audit Committee in safeguarding statutory auditors' independence. |
| $V_{14}$ | Population mean of each occupational category for the variable *Effectiveness of Peer Review Committee* is equal | 6.215 | 0.000 | P Value <0.05 | Rejected | Statistical difference among occupational categories has been observed on effectiveness of peer review committee in safeguarding statutory auditors' independence. |
| $V_{15}$ | Population mean of each occupational category for the variable *Modification in Company Law* is equal | 3.152 | 0.008 | P Value <0.05 | Rejected | Occupational categories are notably different in their opinion on effect of modification in company law on statutory auditors' independence. |
| $V_{16}$ | Population mean of each occupational category for the variable *Establishment of Oversight Authority* is equal | 17.948 | 0.000 | P Value <0.05 | Rejected | Statistical divergence exists among occupational categories on establishment of oversight authority to protect statutory auditors' independence. |
| $V_{17}$ | Population mean of each occupational category for the variable *Need for Ethical Education* is equal | 1.418 | 0.216 | P Value >0.05 | Accepted | Occupational categories of respondents are not statistically different in their opinion on need for ethical education. |
| $V_{18}$ | Population mean of each occupational category for the variable *Incorporation of Ethics in Accounting Curriculum* is equal | 1.34 | 0.246 | P Value >0.05 | Accepted | Respondents irrespective of their occupation believe ethics should be incorporated as a part of accounting curriculum. |
| $V_{19}$ | Population mean of each occupational category for the variable *Need for Awareness Programme by ICAI* is equal | 2.379 | 0.038 | P Value <0.05 | Rejected | Occupation of respondents has significant impact on the opinion of respondents on need for awareness programmes by ICAI. |

*Table 4 continued*

*Table 4 continued*

| Variable | Null Hypotheses (H0) | F | P-value | Decision Rule | Decision on Acceptance of H0 | Inferences |
|---|---|---|---|---|---|---|
| $V_{20}$ | Population mean of each occupational category for the variable *Need for Orientation Programme by ICAI and Academic Institute* is equal | 3.695 | 0.003 | P Value <0.05 | Rejected | Occupational categories are statistically different on need for ethical orientation programme organized by ICAI and academic institutes. |
| $V_{21}$ | Population mean of each occupational category for the variable *Need for Practical Training to Resolve Ethical Conflict* is equal | 4.275 | 0.001 | P Value <0.05 | Rejected | Significant difference exists among occupational categories on need for practical training on ethics for statutory auditors. |
| $V_{22}$ | Population mean of each occupational category for the variable *Rewarding Statutory Auditors for Ethical Practice* is equal | 18.713 | 0.000 | P Value <0.05 | Rejected | Respondents' opinion on rewarding a statutory auditor differs with their occupation. |
| $V_{23}$ | Population mean of each occupational category for the variable *Uniformity of Code of Conduct* is equal | 19.988 | 0.000 | P Value <0.05 | Rejected | Occupational categories of respondents are significantly different on introducing uniformity in code of conduct. |
| $V_{24}$ | Population mean of each occupational category for the variable *Lucidity in Audit Report* is equal | 14.973 | 0.000 | P Value <0.05 | Rejected | Occupation has important impact on the opinion of respondents on bringing more lucidity in the audit report. |
| $V_{25}$ | Population mean of each occupational category for the variable *Mass Media's Role of Public Awareness on Audit Ethics* is equal | 12.722 | 0.000 | P Value <0.05 | Rejected | Occupational categories are significantly divergent in their opinion on the role of mass media in increasing public awareness on statutory auditors' independence. |

**Source**: Compilation of primary data using SPSS.

The following inferences can be drawn from Table 3:

Respondent categories significantly differ among themselves regarding their opinion on the negligence of a statutory auditor. Though the result suggests that corporate executives do not consider statutory auditors to be negligent, there are instances where the corporate executive or client has been found to have lodged a complaint against the statutory auditors for their alleged lack of independence (refer to legal case: *Tri-Sure India Ltd. vs A. F. Ferguson and Co. and Others*, 1985).

Individuals, irrespective of their occupation, believe that ethical education is needed for ethical orientation of statutory auditors, thereby calling for its incorporation in the present accounting curriculum of professional courses.

Individual occupational groups are significantly different in their opinion for all other issues that positively or negatively influence statutory auditors' independence. It shows occupation having an important influence on the opinion of respondents for these variables. In the legal case, *Yogeshwari Kumari vs Institute of Chartered Accountants of India* (2010), the client had lodged a complaint against the auditor for being the director of the client company. From this case, it can be inferred that the perception of the client and the auditor about the impact of a relationship with the management on independence is completely different. This case supports the empirical finding of this study on close relationship with management.

## Homogeneous Groups of Occupational Categories

The null hypothesis of equality of population mean in one-way ANOVA is rejected if any one of the population means is significantly different from that of the others. Therefore, it is possible that while some population means are statistically different, some means are not. With a view to analyse exactly which population means are statistically different, sample mean differences of each individual pairs of categories were calculated. A null hypothesis was proposed that population mean differences are not statistically significant. To test it, Tukey's HSD test, a post hoc test to one-way ANOVA (Malhotra, 2003) was applied, using the same degrees of freedom and significance level as that of ANOVA. If the *P*-value for each mean difference is less than the significant level, $H_0$ is rejected and it is concluded that there is a significant mean difference between that pair.

In this study, where six occupational categories were considered, it is possible to find out exactly which occupational categories are significantly different among each other for each variable. Based on this theory, individual occupational categories can be grouped into homogeneous subsets. In each subset, respondent categories do not have a significant difference of opinion. Homogeneous groups of occupational categories formed by administering this test on the sample for the select variables and its inferences are summarized in Table 5.

**Table 5: Homogeneous Groups Formed Based on Significant Mean Differences in Individual Respondent Categories**

| Variables | Variable Name | Group | Occupational Categories | Mean Score | Inferences |
|---|---|---|---|---|---|
| $V_1$ | Negligence of Statutory Auditors | 1 | Corporate Executive | 3.22 | In the 1st group, there are corporate executives and investors who are neutral in their approach on negligence of statutory auditors. In the 2nd group, persons from academic community (academicians and student) think statutory auditors were negligent in performing their duties. Statutory auditors (CAs and CMAs) are homogeneous in their opinion and lies in between the 1st and the 2nd group. |
| | | | Investor | 3.33 | |
| | | 1 & 2 | CA | 3.43 | |
| | | | CMA | 3.69 | |
| | | 2 | Student | 3.82 | |
| | | | Academician | 3.83 | |
| $V_2$ | Sufficiency of Regulatory Framework | 1 | Academician | 2.55 | Academicians, students and CMAs who do not think regulatory framework for statutory auditors are sufficient, fall under the 1st group. The 2nd group has other three respondent categories who slightly agree with sufficiency of regulatory framework. |
| | | | Student | 2.74 | |
| | | | CMA | 2.87 | |
| | | 2 | Investor | 3.36 | |
| | | | Corporate Executive | 3.36 | |
| | | | CA | 3.46 | |
| $V_3$ | Lack of Enforceability of Regulatory Framework | 1 | CA | 2.98 | CAs and academicians fall under two different extremes of opinion on this variable. While CAs do not think that regulatory framework is not properly enforced, academicians seem to have a completely different view. Rest of the occupational categories fall between them. Investors are more inclined towards the CAs' views, while other three categories support academicians' views. |
| | | 1 & 2 | Investor | 3.20 | |
| | | 2 & 3 | Corporate Executive | 3.43 | |
| | | | CMA | 3.48 | |
| | | | Student | 3.57 | |
| | | 3 | Academician | 3.79 | |
| $V_4$ | Procedure of Appointment of Statutory Auditors | 1 | Student | 3.03 | Significant difference exists between students and academicians putting them in two distinct subsets. Students have a neutral approach, while academicians show considerable agreement to the statement. Investors and corporate executives support students, while CAs are more inclined towards the academicians. The Group containing majority of respondent categories agree to this statement. |
| | | 1 & 2 | Investor | 3.21 | |
| | | | Corporate Executive | 3.23 | |
| | | All group | CMA | 3.41 | |
| | | 2 & 3 | CA | 3.50 | |
| | | 3 | Academician | 3.74 | |
| $V_5$ | Appointment by Independent Authority | 1 | CA | 3.21 | In this variable too, CAs and academicians have significant difference of opinion among themselves putting them in two different subsets. CAs have a neutral approach to this proposal, while Academicians have a strong agreement towards it. Rest of the occupational categories fall between them with corporate executives and investors being inclined towards CAs and students and CMAs inclined towards academicians. The subset with majority of respondent categories agrees with this particular statement. |
| | | 1& 2 | Corporate Executive | 3.32 | |
| | | | Investor | 3.34 | |
| | | | Student | 3.36 | |
| | | | CMA | 3.53 | |
| | | 2 | Academician | 3.73 | |

*Table 5 continued*

*Table 5 continued*

| Variables | Variable Name | Group | Occupational Categories | Mean Score | Inferences |
|---|---|---|---|---|---|
| $V_6$ | Long Association between Statutory Auditor and Client | 1 | CA | 3.60 | CAs have significant difference of viewpoint from academicians, investors and corporate executives for this statement. The degree of agreement of these three respondent categories is way higher than that of CAs. Students are closely associated with CAs in terms of their opinion, while CMAs have close association with other three respondent categories. |
| | | 1 & 2 | Student | 3.69 | |
| | | 2 & 3 | CMA | 4.05 | |
| | | 3 | Academician | 4.12 | |
| | | | Investor | 4.15 | |
| | | | Corporate Executive | 4.16 | |
| $V_7$ | Rotation of Statutory Auditor | 1 | CA | 3.79 | CAs are significantly different in their opinion from corporate executives and investors for this variable. Degree of agreement of these two respondent categories is higher than that of CAs. Rest of the occupational categories fall between these two subsets. Subset that contains maximum respondent categories agrees with this statement. |
| | | 1 & 2 | Student | 3.86 | |
| | | | CMA | 4.06 | |
| | | | Academician | 4.13 | |
| | | 2 | Corporate Executive | 4.19 | |
| | | | Investor | 4.21 | |
| $V_8$ | Maximum Limit of Audit Fee | 1 | CA | 2.29 | For this variable, CAs are significantly different from rest of the occupational categories. It put CAs and other 5 respondent categories in two different subsets. CAs do not consider this variable to be important, while the subset containing most of the respondent categories supports this proposal. |
| | | 2 | Investor | 2.99 | |
| | | | CMA | 3.01 | |
| | | | Corporate Executive | 3.26 | |
| | | | Academician | 3.30 | |
| | | | Student | 3.32 | |
| $V_9$ | Close Relationship between Statutory Auditor and Management | 1 | Corporate Executive | 4.00 | Corporate executives and CAs fall under two different subsets for this variable based on their degree of agreement with this statement. Rest of the occupational categories fall between them. While students show more association with corporate executives, academicians are found to have more closeness with CAs. |
| | | 1 & 2 | Student | 4.08 | |
| | | 1, 2, & 3 | Investor | 4.21 | |
| | | 2,3, & 4 | CMA | 4.39 | |
| | | 3 & 4 | Academician | 4.49 | |
| | | 4 | CA | 4.57 | |
| $V_{10}$ | Provision for Non-Audit Services | 1 | CA | 3.06 | CAs and academicians are significantly different between themselves for this variable which put them in two distinct subsets. While CAs are neutral to this variable, academicians do think non-audit services impair statutory auditors' independence. Rest of the occupational categories fall between them where investors and corporate executives support CAs' views, while CMAs and students are with Academicians. Subset with most of the occupational categories agrees to this statement. |
| | | 1 & 2 | Investor | 3.14 | |
| | | | Corporate Executive | 3.14 | |
| | | | CMA | 3.33 | |
| | | | Student | 3.39 | |
| | | 2 | Academician | 3.53 | |
| $V_{11}$ | Prohibition of Non-Audit Services | 1 | CA | 2.53 | CAs and students are in two distinct subsets for this variable. CAs do not support this proposal, while students are completely in its favour. Corporate executives and academicians support students, while CMAs and investors are more close to the CAs' views. |
| | | 1 & 2 | CMA | 2.76 | |
| | | | Investor | 2.78 | |
| | | 2 & 3 | Corporate Executive | 3.00 | |
| | | | Academician | 3.18 | |
| | | 3 | Student | 3.31 | |
| $V_{12}$ | Strong Disciplinary Framework | 1 | Student | 3.90 | In this variable, significant difference exist between students and CAs in one hand and investors on the other. All the categories agree with effectiveness of this mechanism but significant difference exist in terms of degree of such agreement. |
| | | | CA | 3.94 | |
| | | 1 & 2 | Corporate Executive | 4.00 | |
| | | | CMA | 4.07 | |
| | | | Academician | 4.17 | |
| | | 2 | Investor | 4.37 | |

*Table 5 continued*

*Table 5 continued*

| Variables | Variable Name | Group | Occupational Categories | Mean Score | Inferences |
|---|---|---|---|---|---|
| $V_{13}$ | Strengthening Audit Committee | 1 | CA | 2.50 | In this variable, three different subsets are created. In the 1st group, there are CAs who do not think strengthening Audit Committee could be a solution. In the 2nd subset, there are CMAs who are neutral in their approach. The 3rd subset, comprising most of the occupational categories, support the effectiveness of this mechanism. |
| | | 2 | CMA | 3.00 | |
| | | 3 | Investor | 3.62 | |
| | | | Corporate Executive | 3.86 | |
| | | | Student | 3.87 | |
| | | | Academician | 3.94 | |
| $V_{14}$ | Effectiveness of Peer Review Committee | 1 | CA | 3.34 | Two homogeneous subsets are formed for this variable. The 1st subset has professional accountants and corporate executives who are neutral in their approach for effectiveness of peer review mechanism. This subset contains majority of respondent categories. In the following subset, there are students and academicians who advocate effectiveness of this machinery. Investors fall between these two subsets. |
| | | | CMA | 3.35 | |
| | | | Corporate Executive | 3.35 | |
| | | 1 & 2 | Investor | 3.53 | |
| | | 2 | Student | 3.78 | |
| | | | Academician | 3.86 | |
| $V_{15}$ | Modification in Company Law | 1 | CA | 3.44 | For this variable, CAs have significant difference of opinion from academic community. Though, both these subsets support modification in company law, they certainly differ in terms of their degree of agreement. Rest of the occupational categories fall between them. Subset with most of the occupational categories support this proposal which has been materialized into the Companies Act, 2013. |
| | | 1 & 2 | Investor | 3.62 | |
| | | | Corporate Executive | 3.71 | |
| | | | CMA | 3.76 | |
| | | 2 | Academician | 3.84 | |
| | | | Student | 3.87 | |
| $V_{16}$ | Establishment of Oversight Authority | 1 | Corporate Executive | 2.96 | Based on significant difference of opinion among respondent categories, three subsets are created. The 1st subset with corporate executives is not in favour of establishing an oversight authority. The 2nd subset contains investors who are rather sceptical about effectiveness of this measure. In the 3rd subset, there are academic people, who support this recommendation. Opinion of professional accountants lies between the opinion of 2nd and 3rd subsets. |
| | | 2 | Investor | 3.53 | |
| | | 2 & 3 | CA | 3.63 | |
| | | | CMA | 3.89 | |
| | | 3 | Student | 3.98 | |
| | | | Academician | 3.99 | |
| $V_{17}$ | Need for Ethical Education | 1 | CA | 3.73 | No significant difference exists among the opinion of respondents categories for this variable. Hence, all of them fall under a single subset and all of them show their support to ethical education. |
| | | | Investor | 3.78 | |
| | | | Student | 3.81 | |
| | | | Academician | 3.93 | |
| | | | Corporate Executive | 3.93 | |
| | | | CMA | 4.01 | |
| $V_{18}$ | Incorporation of Ethics in Accounting Curriculum | 1 | CA | 3.71 | There is no significant difference among respondent categories for this variable. Therefore, all respondent categories form a single group and they all agree with this statement that ethics should be incorporated in the accounting curriculum of professional courses. |
| | | | Investor | 3.73 | |
| | | | Academician | 3.85 | |
| | | | Student | 3.92 | |
| | | | Corporate Executive | 3.92 | |
| | | | CMA | 3.98 | |
| $V_{19}$ | Need for Awareness Programme by ICAI | 1 | CA | 3.72 | Two homogeneous subsets are formed based on significant difference of opinion. The 1st and 2nd subsets respectively have CAs and academicians. Both the respondent categories agree with the need for awareness programmes, but they differ in terms of their degree of agreement. Rest of the occupational categories fall between them. Subset with most of the occupational categories agrees with this variable. |
| | | 1 & 2 | Corporate Executive | 3.86 | |
| | | | CMA | 3.90 | |
| | | | Student | 3.97 | |
| | | | Investor | 4.03 | |
| | | 2 | Academician | 4.10 | |

*Table 5 continued*

*Table 5 continued*

| Variables | Variable Name | Group | Occupational Categories | Mean Score | Inferences |
|---|---|---|---|---|---|
| $V_{20}$ | Need for Orientation Programme by ICAI and Academic Institute | 1 | CA | 3.56 | Here also, we have two homogeneous subsets. Though respondents in both the subsets agree with the need for orientation programmes, they differ in terms of their level of agreement. CAs are in the 1st subset and CMAs and academicians are in the 2nd subset. Rest of the categories fall in between. Majority of categories support this variable. |
| | | 1 & 2 | Corporate Executive | 3.87 | |
| | | | Student | 3.93 | |
| | | | Investor | 3.94 | |
| | | 2 | CMA | 3.95 | |
| | | | Academician | 4.09 | |
| $V_{21}$ | Need for Practical Training to Resolve Ethical Conflict | 1 | CA | 3.52 | For this variable, the 1st subset contains CAs who agree with the need for practical training. The 2nd subset has investors and academicians. But their degree of agreement is significantly higher than that of CAs. In between them, there are other three respondent categories that in terms of their mean score support this initiative. |
| | | 1 & 2 | Student | 3.81 | |
| | | | Corporate Executive | 3.87 | |
| | | | CMA | 3.88 | |
| | | 2 | Investor | 4.01 | |
| | | | Academician | 4.05 | |
| $V_{22}$ | Rewarding Statutory Auditors for Ethical Practice | 1 | CA | 2.86 | Four subsets are created among respondent categories for this variable. First subset with CAs think rewarding auditors for ethical service is a good idea. Subset with CMAs is neutral to this statement. The final subset with corporate executives supports this move. Rest of the categories fall between the 2nd and 4th subset. Investors are close to the CMAs' views, while academicians and students support corporate executives. Subset with most of the occupational categories agrees with this statement. |
| | | 2 | CMA | 3.37 | |
| | | 2 & 3 | Investor | 3.67 | |
| | | 3 & 4 | Academician | 3.94 | |
| | | | Student | 4.03 | |
| | | 4 | Corporate Executive | 4.13 | |
| $V_{23}$ | Uniformity of Code of Conduct | 1 | CA | 2.61 | Respondent categories are widely segmented for this variable. The 1st subset with CAs does not support this idea of uniformity of code of conduct, while the subset in the other extreme containing students advocates this move. Corporate executives in the 2nd subset are neutral to this suggestion. Rest of the occupational categories fall between the 2nd and 4th subset. Investors' views are closer to those of corporate executives, while academicians are more close to students. |
| | | 2 | Corporate Executive | 3.27 | |
| | | 2 & 3 | Investor | 3.40 | |
| | | 2, 3, & 4 | CMA | 3.49 | |
| | | 3 & 4 | Academician | 3.71 | |
| | | 4 | Student | 3.89 | |
| $V_{24}$ | Lucidity in Audit Report | 1 | CA | 3.03 | There are two subsets for this variable. The 1st subset has professional accountants, investors and corporate executives. They are all neutral to this particular suggestion. The 2nd subset with academic community however, support brings more lucidity in Audit Report. But the subset with majority of categories does not show significant interest to this proposal. |
| | | | Corporate Executive | 3.32 | |
| | | | CMA | 3.37 | |
| | | | Investor | 3.42 | |
| | | 2 | Academician | 3.94 | |
| | | | Student | 4.06 | |
| $V_{25}$ | Mass Media's Role of Public Awareness on Audit Ethics | 1 | CA | 2.67 | CAs and students are significantly different in their opinion for this variable, which put them in two different subsets. CAs are not in favour of bringing mass media into this issue, while students have a completely different view. Rest of the occupational categories fall between them. CMAs and investors support CAs, while academicians are with students. |
| | | 1 & 2 | CMA | 3.01 | |
| | | | Investor | 3.08 | |
| | | 2 & 3 | Corporate Executive | 3.16 | |
| | | 3 & 4 | Academician | 3.62 | |
| | | 4 | Student | 3.70 | |

**Source:** Compilation of primary data using SPSS.

Following inferences can be drawn from Table 5:

For most of the variables, professional accountants behave uniformly. Such unanimity of behaviour is also observed between the people from academic community. Corporate executives have significant difference of opinion from professional accountants.

Investors have close allegiance with people from academic community for the variables that propose measures for safeguarding statutory auditors' independence.

For issues that improve ethical orientation of statutory auditors, all occupational categories exhibit a similar line of thought.

## SUMMARY OF FINDINGS

Considering the entire sample, procedure of appointment, tenure of service, and close relationship with management emerged as the major influencing factors of statutory auditors' independence.

Rotation of auditors, strong disciplinary framework, external review of audit work, and all the activities that improve the ethical orientation of the statutory auditors are considered to be important safeguards to statutory auditors' independence.

Individuals irrespective of their occupation believe that ethical education is needed for improving ethical orientation of the statutory auditors and it should be immediately incorporated in the accounting curriculum of professional courses.

Individual occupational categories are significantly different in their opinion for all other variables that positively or negatively influence statutory auditors' independence.

Most occupation categories believe that the lack of enforceability of regulatory framework, procedure of appointment, tenure of service, and provision of non-audit service could impair statutory auditors' independence.

Most of the occupation categories also believe that the rotation of auditors and strong disciplinary framework strengthen the audit committee, and that effective peer review committee, modification in company law, awareness, orientation and training programmes, and rewards for ethical service could restore statutory auditors' independence.

Most of the occupational categories do not think that fixing a maximum limit on remuneration would in any way reduce cases of statutory audit failure.

## LIMITATIONS OF THE STUDY

This study has the following limitations:

1. Multivariate statistical techniques, for example, factor analysis or cluster analysis are not applied for the current dataset.
2. Difference in the opinion of respondent categories could also be tested using the non-parametric Kruskal–Wallis Test.
3. Apart from statutory auditors' independence, no other governance related issues that protect stakeholders' interest are considered.

## CONCLUSION

Statutory auditors validate 'truth and fairness' in financial statements. Financial statements authenticated by statutory auditors are considered trustworthy by the stakeholders of the business. They take their financial decision based on the financial statement with utmost good faith in statutory auditors. However, in an in-depth examination of the recent corporate accounting scandals, a few outrageous companies have been found to falsify their financial statement for quite a long period of time. Big and highly regarded accounting firms related with these companies as statutory auditors failed to recognize those frauds resulting in the publication of a false financial statement which ultimately led to a catastrophic consequence to the company impacting most of its stakeholders. In this backdrop, this study critically reviews relevant literature and identifies certain variables that positively or negatively influence statutory auditors' independence. The opinion of respondents from different occupational categories is collected on these variables. The mean score of individual respondent categories represents their opinion for each select variable. The overall mean score shows the opinion of the entire sample. Different occupational categories are significantly different in their opinion for most of the variables except for ethical education to build ethical orientation of statutory auditors. Significant differences of opinion between all individual pairs of respondent categories are analysed and respondent categories are grouped into homogeneous subsets. It is observed that professional accountants and academic communities normally behave in a distinct fashion. Investors and corporate executives align with these two major groups based on the nature of a particular variable. If the study findings are given due importance in times to come, an all-round improvement in statutory auditors' independence can be expected.

## APPENDIX

### Table A1: Rationales for Selecting Individual Respondents Categories

| | |
|---|---|
| Chartered Accountants (CA) | CAs plays the role of statutory auditors of financial statements in the Indian companies. Naturally they have hand on work experience and knowledge in the field of statutory auditors' independence. So, CA's both in practice and service, are included in the study. |
| Cost and Management Accountants (CMAs) | CMAs are professional accountants entrusted with the responsibility of auditing cost related information in a company by statute of law. Therefore, they are also called statutory auditors. Although, the study mainly covers statutory financial auditors, CMAs, both in practice and service, also come within the purview of our research as professional accountants. |
| Academicians | Academicians from undergraduate colleges, Universities and Business Schools in Kolkata, who are specialized in the subject of accounting and auditing and have research orientation in the related field, are included in the present study. |
| Students | Students especially from commerce background pursing their post-graduation from university or business school or students appearing for the final examination of Chartered Accountancy course are expected to bring their modern thoughts on a barring issue like statutory auditors' independence. Naturally they are included as a respondent category. |
| Investors | Investors who invest their own money in the stock market, and institutions like banks, insurance companies or mutual funds companies who accumulate money from the individual savers and invest it in the capital market are the main target respondents under this category. For having opinions of institutional investors, correspondents from Kolkata regional offices of these companies have been interviewed. |
| Corporate Executives | Corporate executives from big public limited or private limited companies, who look after Accounts or Finance Department in their company and deal with statutory auditor, are the direct representative of the management. Their nature of work allows them to closely observe the commitment of statutory auditors towards their independence requirement in a professional engagement. Therefore, corporate executives are a fairly important segment in the current study. |
| Method of Data Collection | All the respondents from aforesaid occupational groups were contacted on a personal basis over phone and interview meeting held after an appointment was taken as per their convenience. Their opinion on each of the statement of the questionnaire was incorporated. |

**Source:** Authors' compilation based on discussion with select groups of respondents as a part of Pilot Survey.

### Table A2: Profile of Data Collection

| Respondent Categories | Initial Sample Selected | Number of Opinions Collected |
|---|---|---|
| Chartered Accountants (CA) | 150 | 101 |
| Cost and Management Accountants (CMAs) | 150 | 94 |
| Academicians | 150 | 111 |
| Students | 150 | 118 |
| Investors | 100 | 86 |
| Corporate Executives | 100 | 91 |
| **Total** | **800** | **601** |

**Source:** Compilation of field survey data using SPSS 20.0.

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**Mitrendu Narayan Roy** is currently pursuing his PhD in the University of Calcutta, India. He is also an Assistant Professor in the Department of Commerce at the Goenka College of Commerce and Business Administration, Kolkata. As a Project Fellow, he was earlier associated with a UGC Research Project undertaken by Dr Siddhartha Sankar Saha. He was also a Senior Research Fellow (UGC-NET) in the Department of Commerce at the University of Calcutta.

e-mail: mitrenduroy@gmail.com

**Siddhartha Sankar Saha** is an Associate Professor in the Department of Commerce at the University of Calcutta, India. He was earlier a Senior Faculty in the Department of Commerce (Accounting and Finance), St. Xavier's College (Autonomous), Kolkata. He obtained his PhD in finance from the Department of Commerce, University of Calcutta. He has two decades of teaching experience in the undergraduate and postgraduate levels in the University and B-Schools. He has been supervising a number of research scholars at the Department of Commerce, University of Calcutta. Recently, he has completed a major research project funded by UGC. He has published more than 80 research papers in national and international journals, conference proceedings of national and international conferences, and edited books. He has also been invited to chair sessions and deliver keynote speech in international conferences in India and abroad. He has authored five books in the field of finance for the undergraduate and postgraduate students.

e-mail: drsiddharthasxc@gmail.com