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Professional Ethical Principles of Audits: A Study on Independence

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Abstract
Auditor independence plays an important role throughout the financial statement audit process. There are many factors that affect the independence of auditors when performing financial statement audits, such as the provision of non-audit services when simultaneously providing audit services, the economic dependence of the client unit, competition in the audit market, etc. Previous studies in many countries have mentioned different factors that can enhance or threaten independence and produce different, sometimes inconsistent, results. The article uses quantitative research methods in SPSS 20 software. The results of this study show that there are differences in the views of financial statement users and auditors regarding the influence of some factors on auditor independence. The authors also suggest some solutions to ensure and increase the independence of auditors in auditing financial statements in accordance with current Vietnamese reality.

Keywords: Independence, Auditors, Financial Statement Audit

1. Introduction

Financial statements present important information about a company's financial situation, business results, and cash flow, and financial statement audits have become an effective tool to ensure information quality on financial statements. However, many major violations related to fraud on audited financial statements have caused concerns about audit quality and auditor independence, an important factor influencing the quality of the audit. Typically, the bankruptcy of Enron Corporation in 2001 in the US is quite famous, and the auditing firm Arthur Andersen went bankrupt in 2002 due to a loss of reputation. Many reasons have been given, notably that Arthur Andersen performed audits for Enron for a fairly long period of 16 years and also provided consulting services to the unit. Many studies also show that auditing firms auditing financial statements for one client over a long period of time and performing other non-audit services threatens the auditor's independence. Previous studies in many countries have addressed different factors that can enhance or threaten independence and have produced different, sometimes inconsistent, results. Therefore, research on influencing factors and the degree of influence of each factor on auditor independence is a very urgent issue.

2. Literature Review and Theoretical Basis

Literature Review

Previous studies show that there are many factors that affect auditor independence. The authors group the issues as follows:

Providing non-audit services

According to research by Beattie *et al*. (1999) [4] in the UK, Teoh & Lim (1996) [15] in Malaysia, Law (2008) [12] in Hong Kong, and Al-Ajmi & Saudagaran in Bahrain (2011) [1], fees for providing non-audit services greater than or equal to 100% of the fee from audit services are considered one of the most threatening factors in the list of factors that threaten independence. When this fee is at lower levels, it is also considered to threaten independence. However, Law's (2008) [12] research in Hong Kong shows that audit partners evaluate it as having a less threatening effect on independence; some even think it increases independence. Auditing firms sometimes also perform staff searches for the issuing company, which is also one of the services to consider.

Audit Fees

To reduce the risk of losing fees from a contract, auditors can comply with client requests and even cooperate in fraudulent activities (Gavious, 2007) [10]. According to the results of research by Beattie *et al*. (1999) [4], Alleyne *et al*. (2006) [2], and previous studies, economic dependence is considered one of the factors that threaten strong independence. Especially when the fee from a client accounts for up to 10% of the audit firm's total revenue.

Audit Tenure, Rotation of Auditors, and Audit Firms

Research by Teoh & Lim (1996) [15] and Beattie *et al*. (1999) [4] concluded that the rotation of audit partners is considered one of the factors that increase auditor independence. The provisions of the Sarbanes-Oxley Act (2002) stipulate the rotation of audit partners at least within 5 years to ensure independence, although it is not necessary to change the audit company. According to Gate *et al*. (2007) [9], there is greater confidence in the financial statements of companies that rotate auditors compared to companies that only rotate audit partners or do not have audit partners. any rotation.

Audit Committee

According to the Sarbanes-Oxley Act (2002), the Audit Committee is "a committee (or an equivalent body) established and among the Board of Directors of an issuer for the purpose of supervising the accounting processes and financial reporting processes of the issuer and auditing the issuer's financial statements."

Results from previous studies have shown that the existence of an audit committee is a factor that increases audit independence (Beattie *et al*., 1999 [4]; Teoh & Lim, 1996 [15]; Abu Bakar and al., 2005; Alleyne *et al*., 2006 [2]; Al-Ajmi & Saudagaran, 2011 [1]).

Market Competition and Audit Firm Size

According to research by Beattie *et al*. (1999) [4], high competition in the audit market and small audit firm size from the perspective of both auditors and financial statement users are potential factors. Threatens the auditor's independence. Large audit firms and members of international firms are often considered more independent than small audit firms or local firms (Alleyne *et al*., 2006 [2]; Al-Ajmi & Saudagaran, 2010). However, Canning & Gwilliam (1999) [6] conclude that small audit firm size and proximity to the Irish audit market enhance independence.

Risks to Auditing

Many studies evaluate the risk factors that occur to auditors when independence is not guaranteed, which affects audit quality and increases independence. These factors are: the risk of litigation against the auditor; the risk of disciplinary action against the auditor from professional organizations or legal agencies; the risk of damaging the reputation of auditors in the public; and the risk of losing the auditor's practicing certificate. Specifically, the research of Beatie *et al*. (1999), Teoh & Lim (1996) [15], Alleyne *et al*. (2006) [2], and Al-Ajmi & Saudagaran (2011) [1].

Disclosure of Financial Relationships

Research by Beatie *et al*. (1999) in the UK, Alleyne *et al*. (2006) [2] in Barbados, and Al-Ajmi & Saudagaran (2011) [1] in Bahrain shows that the disclosure of information about services provided to customers, banks, and fees enhances the auditor's independence when surveying the views of auditors, loan officers at banks, and financial analysts.

Theoretical Basis

The study uses delegation theory to propose factors that affect auditor independence. Mandate theory focuses on the relationship between principals and agents. According to agency theory, both parties try to maximize their benefits, and there are conflicts within this relationship, thereby generating an agency cost. Two typical fiduciary relationships are the relationship between shareholders and the company's board of directors and the relationship between creditors and shareholders of the company using loan capital. The mandating party will evaluate its performance and monitor its activities through mechanisms associated with the financial statements. One of those mechanisms is that financial statements must be audited (Amold & Lange, 2004) [3] to ensure that financial statements are prepared by managers and are subject to independent supervision by auditors. The audit quality model describes audit quality as a combination of two capabilities: the detection of material misstatements, whose applicability depends on competency, and the reporting of material misstatements, which depends on independence. Independence is one of two components that determine audit quality.

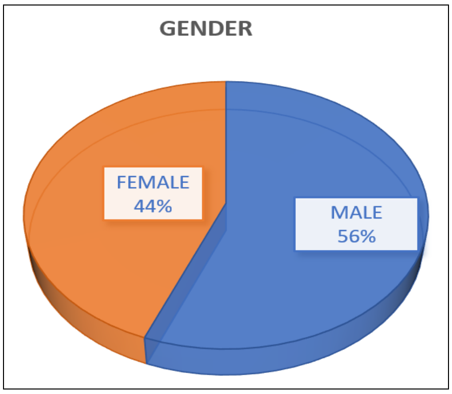
3. Research Methods

The research uses quantitative research methods. The author group designed and distributed the survey questionnaire. The survey subjects were auditors, accountants, and financial report users. The questionnaire was based on the questionnaire of Al-Ajmi and Saudagaran (2006), with adjustments to suit the study. The method of sample selection is convenience sampling. I sent 140 surveys and received 116 valid responses. People surveyed gave their opinion on the influence of 23 factors (belonging to 7 factor groups) on auditor independence through a 5-level Likert scale: (1) serious threat to auditors' independence; (2) quite threatens independence; (3) does not affect independence; (4) moderately increases independence; (5) strongly increases independence. The study uses SPSS 20 to compare the average value that auditors, accountants, and users evaluate about the influence of each factor. Then, classify into two separate groups: the group of factors that threaten independence (mean value < 3) and the group of factors that increase independence (mean value > 3) and rank in each category group.

4. Research Results and Discussion

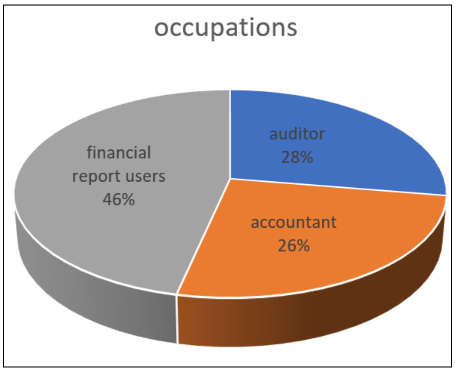
Descriptive Statistics

Of the 116 valid responses, the number of men was 65 (accounting for 56%) and the number of women was 51 (accounting for 44%) (Figure 1). By profession, there are 32 auditors (accounting for 28%), accountants are 30 people (accounting for 28%), and information users, including credit officers and investors, are 54 people (accounting for 46%) (Figure 2).



Source: Compiled by the authors

Fig 1: Statistics on gender



Source: Compiled by the authors

Fig 2: Statistics on occupations

Factors that Threaten Auditor Independence

Table 1: Average value of factors threatening the independence of auditors

Factor	Auditor	Accountant	Financial report user	Total
Non-audit service fees greater than or equal to audit fees from a client (X1)	1.84	1.9	**1.59**	**1.74**
Pressure regarding non-audited competition (X13)	1.91	1.93	1.69	1.81
Pressure on the budget that auditing companies impose on auditors (X14)	**1.72**	**1.67**	2.06	1.86
The auditor strives not to lose their clients (X12).	1.84	1.87	2.11	1.97
The auditing company seeks key personnel for the clients (X4).	2.34	2.1	1.76	2.01
The auditor's term lasts for more than 3 years for a single client (X7).	2.19	1.83	2.02	2.02
The term of the lead audit partner lasts for more than 3 years for a single client (X8).	2.28	1.83	2.06	2.06
Revenue from a single customer that is equal to or greater than 10% of the total audited company revenue (X6)	2.19	2.1	2.17	2.16
The income of the part-owner depends on maintaining a specific customer (X5).	2.16	2.2	2.15	2.16
The competition among auditing firms (X11)	2.13	2.2	2.19	2.17
Non-audit service fees ranging from 50% to less than 100% of audit fees from a client (X2)	2.38	2.37	1.96	2.18
The auditing company is a domestic company, small in scale (X16).	2.38	2.43	1.96	2.2
Non-audit service fees range from 25% to less than 50% of the audit fees from a client (X3).	2.81	2.73	2.13	2.47
The auditing company has been auditing for a client for a period extending over 5 years (X9).	2.88	2.63	2.41	2.59

Source: Author's compilation

According to the average results of the overall survey sample (Table 1), there are 14 factors that threaten auditor independence. In particular, if we consider the three biggest threats to independence: (X1) non-audit service fees > 100% of audit fees; (X13) pressure on audit fee competition; and (X14) the budget pressure that auditing companies impose on auditors, which has an average value of 1.74, 1.81, and 1.86.

According to all respondents, the four factors that pose the least threat to independence are (X2) non-audit service fees equal to 50% to less than 100% of audit fees from a client; (X16) the auditing company is a domestic, small-scale company; (X3) non-audit service fees are equal to from 25% to less than 50% of the audit fee from a client; and (X9) the auditing company performs audits for a client for a period of more than 5 years with The average value is 2.18, 2.20, 2.47, and 2.59. If we consider auditors and accountants separately, these two groups still agree that these are the four factors that threaten independence at the lowest level.

The assessment that the audit firm is a domestic, small-scale company and that competition among audit firms threatens the independence of auditors is consistent with the research results of Beattie *et al.* (1999) [4], Alleyne *et al.* (2006) [2], and Al-Ajmi & Saudagaran (2011) [1] and is different from the research results of Canning and Gwilliam (1999) [6] in Ireland.

It must also be emphasized that the extension of a company's audit time for a client also threatens independence. This is consistent with the research of Beattie *et al.* (1999) [4], Alleyne *et al.* (2006) [2], and Al-Ajmi & Saudagaran (2011) [1] and is different from the research results of Dart (2011) [8] in the UK. This is also a factor that has given many different results in previous studies.

Factors that Increase Auditor Independence

Similar to above, Table 2 is compiled from research results with nine factors believed to have an influence on increasing auditor independence.

Starting by analyzing the factors that are considered to increase independence most strongly, we see that, for the overall survey sample, these are the risks related to providing poor audit services quality. This is also consistent with the auditor's perspective. Meanwhile, accountants emphasize the role of the (X10) Audit Committee appointing auditors for financial statement audits, and users believe that (X15) auditing firms are big, medium, and large-sized companies, and members of other international audit firms are one of the three factors that most strongly increase independence.

Table 2: Average value of factors enhancing the autonomy of auditors

Factor	Auditor	Accountant	Financial report user	Total
Risk of auditors losing their professional certification (X20)	**4.31**	4.13	**4.43**	**4.32**
The risk of disciplinary actions against auditors from professional organizations or legal entities (X18)	4.25	**4.27**	4.35	4.3
The risk of litigation against auditors (X17)	4.16	4.17	4.15	4.16
The risk of damage to the auditor's reputation with the public (X19)	4.16	4.1	4.19	4.16
The audit committee appoints the auditor for the financial report audit (X10).	4.13	4.2	4.13	4.15
The auditing companies are Big 4, large and medium auditing firms, and other international auditing firm members (X15).	3.88	3.9	4.22	4.04
Publicize audit service fees (X22).	3.41	3.6	4.15	3.8
Publicize the provision of non-audit services (X21).	3.56	3.43	4.07	3.77
Disclose the fees for non-audit services (X23).	3.41	3.37	4.09	3.72

Source: Author's compilation

In the group of factors that least increase independence, according to all surveyed people, there are 3 factors in the group of publicizing the relationship between the audit company and the client: (X22) Publicizing service fee audits; (X21) Disclosure of non-audit service provision; (X23) Disclosure of non-audit service fees. If considering each subject separately, accountants and auditors also agree that those three factors are the ones that increase independence at the lowest level on the list.

5. Recommendations

Through analyzing and synthesizing the survey results, the research team found that there is consensus among the three groups' views on whether each factor has an influence that increases or threatens independence. The mentioned factors are divided into two groups: 14 factors that threaten independence and 9 factors that increase independence. However, there is a difference in the ranking of the level of threat or increased independence in each of the above factor groups among the three groups of survey subjects. The study used proxy theory to explain this difference. At the same time, it must be noted that the assessment of financial statement users is extremely important because it is their need for quality financial information that has created the need for report audits in finance. Thus, in order to ensure and increase the independence of auditors, the author suggests some solutions as follows:

For Regulatory Agencies and the Association of Practicing Auditors

Regarding audit rotation, the Independent Audit Law (National Assembly, 2011) [14] and the system of audit standards (Ministry of Finance, 2012) [5] have regulations limiting auditors' audit time. However, for the rotation of audit firms, there is currently only Circular No. 39/2011/TT-NHNN of the State Bank (2011) stipulating that audit organizations are not allowed to audit credit institutions. applied for a period of five consecutive years immediately preceding the audit year. Regulatory agencies need to issue regulations to limit the time (possibly 5 years) that an auditing company conducts an audit for a client, which can first be applied to auditing financial statements. Units that greatly affect public interests include: public companies, listed organizations, organizations issuing securities to the public, securities companies, securities investment companies, funds, and other companies. Fund management and expansion to many other subjects if deemed appropriate.
Regarding the disclosure of economic relationships with clients, regulatory agencies can require audit firms to disclose non-audit services and fees collected from important clients so that regulators, management, and users are informed when necessary or specific cases require disclosure. This may put pressure on auditing firms to ensure greater independence when performing audits.
Regarding audit quality control, the Vietnam Association of Practicing Auditors organizes quality control sessions for audit companies every year. From the results of factors threatening the independence of auditors, the author suggests some criteria for selecting audit documents, as follows: Auditing company audits for a client are important for a long time; the clients are important customers for the audit firm (accounting for more than 10% of the audit firm's revenue); the audit firm also does non-audit services and audits for a client.

For Auditing Companies

Regarding the assignment of auditors for audits, auditing companies must rigorously and comprehensively execute all relevant documents related to the selection of audit teams and ensure their independence. The authenticity of the information on these working documents is verified by independent individuals.
Regarding the disclosure of economic relationships, non-audit services, and client-related fees, the auditing company can provide relevant critical information if deemed appropriate. This is to assure users that independence is maintained and instill confidence in them about the quality of the financial audit report.
Regarding audit quality control, the auditing company can focus on scrutinizing the quality of audit files that contain elements threatening independence, as mentioned above: the prolonged auditing time for a particular client, a close relationship or good rapport with the auditing company's staff, and clients for whom the company has just audited financial reports while also providing other non-audit services.

For Companies Utilizing Financial Report Auditing Services

Regarding the appointment of auditors, the factor of an independent audit committee appointing auditors is considered to enhance independence. However, in each different company, with various organizational structures, such audit committees may not exist. The proposed solution is that the appointment of auditors needs to be closely monitored. Companies need to have a policy for selecting a suitable auditing firm, appointed by individuals independent of the executive members. Consider whether the auditors or auditing firms have any vested interests in the company's executive members and whether these relationships could influence the process of auditing financial reports.

Regarding the simultaneous use of audit and non-audit services, companies may consider appointing an auditing firm, auditors different from the auditing firm, or auditors who are providing non-audit services to them, whether or not there are requirements from state regulatory agencies to ensure independence.

Regarding the rotation of auditors and audit firms, companies should consider requesting the audit firm to rotate auditors if their independence is not assured. It is possible to change the audit firm after a certain period (5 years) even without a request from state regulatory agencies.

For the Users of Financial Reports

Users of financial reports should pay greater attention to the information presented in these reports. At the same time, they should specifically focus on issues related to the appointment of the company's auditor, such as the policy for appointing auditors, the duration of the auditing company's involvement in auditing for the issuing company, the economic relationship between the auditing company and the issuing company, and non-auditing services used by the company from the auditing firm. This is done to assess whether the independence of the auditor and auditing firm has been assured or not.

6. Conclusion

This study has expanded the survey population to include accountants, compared to referenced studies, to provide a comprehensive view of the factors influencing the independence of auditors across three main groups that use financial reports. However, future research could broaden the scope to include more users of financial reports, such as financial analysts, economic researchers, government tax officials, policy planners, etc., with a larger survey sample to gather views from a wider audience and delve deeper into their perspectives on the factors affecting the independence of auditors in auditing financial reports.

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