



Received: 17-07-2024
Accepted: 27-08-2024

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Study Factors Affecting the Independence of Auditors in Auditing Companies in Hanoi

Vu Van Dung

Hanoi University of Natural Resources and Environment, Hanoi, Vietnam

Corresponding Author: **Vu Van Dung**

Abstract

This study investigates the factors affecting the independence of auditors at auditing firms in Hanoi through qualitative interviews and focus groups. The research results show that there are 5 main factors, including: economic dependence on customers, inadequate regulatory enforcement, culture and leadership of auditing companies, characteristics and pressure of customers, professional ethics and characteristics of each auditor that affect the

independence of auditors in auditing companies in Hanoi. The findings highlight the need for stricter regulatory enforcement, a strong ethical culture within companies, and enhanced professional ethics to protect auditors' independence and ensure high quality audits. The study has practical implications for audit firms, regulators, and professional organizations, and lays the groundwork for future studies on auditor independence in emerging markets.

Keywords: Auditor, Independence, Vietnam

1. Introduction

Audits play an important role in ensuring the accuracy and reliability of financial statements, thus enabling stakeholders to make the right decisions (Pham, 2022)^[8]. In Vietnam, the audit profession has grown significantly, with many companies providing audit services to a wide range of customers. Auditor independence, the cornerstone of the auditing profession, ensures that auditors maintain a fair and objective stance while conducting audits (International Ethics Standards Board for Accountants [IESBA], 2018). Auditors at independent auditing firms in Vietnam are facing many pressures that can compromise their independence, such as economic dependence on customers, fierce competition among auditing firms, and inadequate regulatory enforcement (Hung, 2022)^[6]. Therefore, understanding the factors affecting auditor independence is essential to develop targeted interventions to protect and promote independence.

Therefore, this study is aimed at exploring the factors affecting the independence of auditors in auditing firms in Hanoi, specifically this study aims at the following specific objectives:

1. Identify the key factors affecting the auditor's independence.
2. To understand the importance of these factors to auditors.
3. To consider the impact of these factors on audit quality and profession.

Addressing these objectives will contribute to the existing literature on auditor independence by providing insights from the context of Hanoi. At the same time, make recommendations to stakeholders to enhance the independence of auditors.

2. Literature review

2.1 Theoretical basis

Agency Theory

Agency theory holds that auditors act as agents for shareholders (owners) to monitor the actions of managers, reducing information asymmetry (Jensen & Meckling, 1976). The independence of the auditor is critical to ensure that the auditor acts in the best interest of the owner and not of management.

Theory and framework of independence

IESBA (2018) outlines the conceptual framework of auditor independence, which identifies five types of threats to independence: threats for self-interest, self-assessments, advocacy, familiarity, and threats. This framework serves as a foundation for understanding factors that may compromise the auditor's independence.

2.2 Some previous studies on the independence of auditors

Previous research has identified many factors that influence auditor independence. Some of the most prominent include:

Economic dependence on customers

DeAngelo (1981)^[1] argues that the auditor's economic dependence on the client can undermine independence, as the auditor may be reluctant to give a conditional opinion for fear of losing the client.

Reynolds & Francis (2001)^[11] found that auditors are more likely to accept pressure from clients when clients account for a significant portion of auditors' revenues.

Audit firm size and culture

Ghosh & Lustgarten (2006)^[3] show that larger audit firms are more likely to remain independent due to their significant reputation capital and diverse client base.

Hung (2023)^[5] emphasizes the role of audit firm culture, arguing that a strong ethical culture within the firm can enhance auditor independence.

Legal environment

Quick & Warming-Rasmussen (2009)^[10] examined the impact of regulatory changes on auditor independence, and emphasized the importance of effective regulation in promoting independence.

Humphrey *et al.* (2009)^[7] argue that the regulatory environment, including the enforcement of independence rules, significantly affects auditors' ability to maintain independence.

Professional ethics and personal characteristics of auditors

Shafer *et al.* (2001)^[12] explored the role of professional ethics in auditor decision making, demonstrating that auditors with stronger ethical values are more resistant to pressure from clients.

Ponemon (1992)^[9] found that personal characteristics, such as integrity and professional commitment, play an important role in maintaining auditor independence.

Client characteristics

Reynolds & Francis (2001)^[11] argue that client characteristics, such as the client's financial situation and internal control system, can affect the auditor's independence.

DeFond *et al.* (2002)^[2] have shown that auditors may be inclined to trade off their independence when working with powerful or influential clients.

These studies provide a comprehensive overview of factors that may affect auditor independence, highlighting the multifaceted nature of this issue. Understanding these factors is essential for developing strategies to strengthen and protect auditors' independence in a variety of contexts.

3. Research Method

This study uses qualitative research methodology, using interviews and focus groups to gather in-depth information on factors affecting auditor independence.

The target audience includes auditors working at independent auditing firms in Hanoi. Intentional sampling is used to select participants who have a variety of experiences, work at companies of different sizes, and serve a variety of customers. A total of 25 auditors participated in the study.

Data were collected between March 2024 and August 2024 through:

In-depth interviews with 15 experienced auditors and key informants, each interview lasts approximately 45-60

minutes.

Focus group discussion with 10 auditors, divided into two groups based on their experience level. Each focus group lasted approximately 90 minutes.

Topic analysis is used to identify, analyze, and report patterns (topics) in data (Braun & Clarke, 2006). The data analysis process consists of six stages: familiarization, initial code generation, topic search, topic review, topic identification and naming, and report generation.

4. Research results and discussion

4.1 Key Factors Affecting Auditor Independence

The thematic analysis of the interview and focus group data revealed five key themes representing the key factors influencing the independence of auditors at independent auditing firms in the city of Hanoi. These topics are interrelated and shed light on the complex nature of auditor independence.

Economic dependence on customers

Economic dependence on clients has emerged as an important factor affecting the independence of auditors. Auditors express concern about the potential loss of clients or leads, which can have a significant impact on their company's revenue. This economic dependence often leads the auditor to prioritize client retention over independence.

Auditors describe pressure to maintain good relationships with clients to avoid losing them to competitors. This pressure is particularly severe for smaller audit firms, where the loss of a key client can have serious financial consequences.

"If we lose this customer, it will have a significant impact on the company's revenue. We can't be too hard on them, or they might leave."

The auditors also highlighted the pressure to maintain or increase the non-audit (NAS) services provided to clients. NAS is a significant source of revenue for many audit firms and clients often expect auditors to provide these services. However, providing NAS to audit clients can create conflicts of interest and undermine auditors' independence (DeFond *et al.*, 2002; Reynolds & Francis, 2001)^[2, 11].

"Customers often ask for additional services and it is difficult to refuse. We have to satisfy them, but this is an aspect that undermines the auditor's independence."

Economic dependence on clients creates a challenging environment for auditors, as they must balance the need to maintain financial stability with the requirement to maintain professional standards and independence. This finding is consistent with previous research, which identified economic dependence as a significant threat to auditor independence (DeAngelo, 1981; Reynolds & Francis, 2001)^[1, 11].

Inadequate enforcement of regulations

Participants often refer to inadequate enforcement of independence regulations as a barrier to maintaining auditor independence. Although existing regulations aim to protect independence, their weak implementation and lack of strong enough sanctions undermine their effectiveness.

The auditors criticized the weak implementation of the independence regulations, citing inadequate oversight and supervision by the regulators. This lack of enforcement

allows some audit firms to ignore the rules without facing significant consequences.

"The regulations are there, but the enforcement is not strong enough. Companies can infringe without being dealt with."

The absence of effective penalties for violations of independence exacerbates the problem. The auditors noted that even when violations are detected, penalties are usually light and do not have a strong deterrent effect.

"There is no real penalty for breaking the rules. Companies can be fined lightly, but that's about it."

Inadequate regulatory enforcement creates an environment in which some auditing firms may be tempted to compromise their independence, given the relatively low risk of being found out and penalized. Strengthening the enforcement of independence regulations is critical to promoting auditor independence and enhancing the credibility of the auditing profession (Quick & Warming-Rasmussen, 2009; Humphrey *et al.*, 2009)^[10, 7].

Audit of company culture and leadership

Audit firm culture and leadership play an important role in shaping auditors' attitudes and behaviors related to independence. Culture at the highest level, or the example of company leadership, significantly influences the overall culture of the company and the importance of independence and ethical behavior.

Auditors describe the tension between commercialism and professionalism in their companies. Some companies prioritize commercial interests, such as revenue growth and customer retention, over professional values and independence. This emphasis on commercialism can create an environment where auditors feel pressured to trade off their independence.

"Sometimes, it seems like the company cares more about making money than doing the right thing. It's a constant struggle."

The attitude of senior managers is identified as an important factor affecting the independence of auditors. When company leaders demonstrate a strong commitment to independence and ethical behavior, auditors feel more empowered to resist client pressure and maintain professional standards.

"Our partners have always stressed the importance of maintaining relationships with our customers, sometimes even at the expense of independence. This makes it difficult for us to do our job well."

"At our company, our partners are very clear about the importance of independence. They support us when we have to make tough decisions and that makes a big difference."

Audit firm culture and leadership are essential to foster an environment that supports auditor independence. Company leaders must establish a positive culture at the highest level and prioritize professionalism over commercial interests to enable auditors to maintain their independence (Ghosh & Lustgarten, 2006; Goldman & Barlev, 2004)^[3, 4].

Customer characteristics and pressures

The characteristics of the client and the pressure that the client places on the auditor are identified as important factors affecting the independence of the auditor. Clients with influence or power, as well as clients with poor financial standing or weak internal control systems, pose challenges to an auditor's ability to maintain independence. The auditor describes situations where the client has influence or power trying to exert pressure on them, making it difficult for the auditor to maintain his independence. These clients often have significant bargaining power and can make it difficult for auditors not to cooperate with their requests.

"Some customers are too powerful; they can make it difficult for us if we don't cooperate. This is a delicate situation."

The financial health of the client and the internal control system also impact the independence of the auditor. The auditor noted that clients with poor financial health or weak internal controls often require more complex and subjective assessments, increasing the risk of disagreement and pressure from clients.

"When customers are in financial trouble, they may try to push us to overlook more mistakes in our assessment. It's important to be consistent, but this can be very difficult."

Client characteristics and pressures create a highly demanding environment for auditors who must navigate complex relationships and maintain their independence from client requirements. Previous studies have also identified client characteristics as an important factor affecting auditor independence (Reynolds & Francis, 2001; DeFond *et al.*, 2002)^[11, 2].

Professional ethics and personal characteristics of auditors

Professional ethics and personal characteristics of auditors are recognized as important factors affecting the independence of auditors. Auditors' ethical values, professional commitment, and personal relationships with clients all play a role in shaping their ability to remain independent.

The auditor emphasizes the importance of strong ethical values and a commitment to the profession in maintaining independence. People with well-developed ethical qualities are better equipped to resist client pressure and maintain professional standards.

"It is important to have solid moral values in this profession. Sometimes you have to make tough decisions and you need to be able to defend your stance."

The personal relationship with the client can both facilitate and impede the independence of the auditor. On the one hand, close relationships can foster trust and open communication, allowing auditors to have candid discussions with clients on controversial issues. On the other hand, close personal relationships can create conflicts of interest and make it more difficult for auditors to maintain their objectivity.

"It's important to have a good relationship with your customers, but you have to be careful not to get too close. This can be a thin line."

Professional ethics and personal characteristics of auditors are essential to maintaining independence, as they empower auditors to resist client pressure and maintain professional standards. Previous research has highlighted the role of professional ethics and personal characteristics in promoting auditor independence (Shafer *et al.*, 2001; Ponemon, 1992) [12, 9].

4.2 Recognize the importance of factors

Auditors generally agree on the importance of the identified factors, but there are differences in perceived importance based on firm size and auditor experience. For example, auditors from smaller companies place more emphasis on economic dependence, as the loss of an important client can have serious financial consequences for their company.

"For small companies like us, losing a big customer can be disastrous. We have to be very careful about how we handle the relationship with the customer."

In contrast, auditors from larger companies emphasize the role of company culture and leadership, noting that a strong culture from the leadership level is critical to support auditor independence.

"At our company, our partners have clearly stated their views on the importance of independence. That makes it easier for us to do our job in the right way."

Experienced auditors tend to emphasize the importance of professional ethics and the personal characteristics of auditors, as they have developed a solid ethical value and commitment to the profession over time.

"As you gain more experience, you will understand the importance of maintaining your independence. It becomes a core part of your professional identity."

In contrast, less experienced auditors are more concerned with client characteristics and pressures because they are still learning to deal with complex client relationships and asserting their independence.

"When you're just starting out, it can be difficult to stand up to customers, especially when they are powerful or influential. It's something you have to learn over time."

4.3 Impact on audit quality and profession

Participants acknowledged that the identified factors could negatively impact audit quality by introducing bias and reducing auditor objectivity. When auditors are unable to maintain their independence, the credibility and credibility of their audit opinions may be called into question.

"If the auditors are unable to maintain their independence, the entire audit process is compromised. This devalues what we do."

The impact of these factors on the audit profession is also a cause for concern. Participants noted that a lack of independence could erode public trust in the profession, leading to reputational damage and the possibility of regulatory oversight.

"If the public starts to question our independence, it will undermine the entire profession. We have to be vigilant to maintain our credibility."

In order to minimize the negative impact of these factors on audit quality and the profession, it is essential to address the root cause of the problem and promote an environment that supports auditors' independence.

4.4 The interaction between the elements

The five key factors affecting auditor independence are not separate but interconnected and mutually reinforcing. For example, economic dependence on customers can be exacerbated by inadequate regulatory enforcement, as audit firms may feel emboldened to prioritize economic gain over independence when the risk of discovery and fine is low. Similarly, an audit firm's culture and leadership can influence how auditors perceive and respond to client pressure, with a strong culture at the top empowering auditors to resist demands that compromise their independence.

In addition, professional ethics and the characteristics of each auditor can shape how the auditor navigates complex client relationships and balances the competing demands of commercialism and professionalism. Auditors with strong ethical values and a commitment to the profession are better equipped to maintain their independence from client pressure and economic dependence.

Understanding the interaction between these factors is important to develop interventions that address the root causes of the problem and promote auditor independence.

4.5 Comparison with previous studies

The findings of this study are generally consistent with previous studies on auditor independence, which identified economic dependence on clients, inadequate regulatory enforcement, audit firm culture and leadership, client characteristics, professional ethics, and individual auditor characteristics as important factors affecting independence (DeAngelo, 1981; Reynolds & Francis, 2001; Ghosh & Lustgarten, 2006; Goldman & Barlev, 2004; Quick & Warming-Rasmussen, 2009; Humphrey *et al.*, 2009; Shafer *et al.*, 2001; Ponemon, 1992; Reynolds & Francis, 2001; DeFond *et al.*, 2002) [1, 11, 3, 4, 10, 7, 12, 9, 11, 2].

However, this study expands existing literature by providing insight into the context of Hanoi's auditing profession and highlighting the special challenges that auditors face in this environment. For example, the findings underscore the importance of adequate regulatory enforcement in promoting auditor independence, which may be particularly relevant in emerging markets such as Vietnam, where regulatory institutions may be less developed than in developed countries.

Furthermore, this study highlights the role of audit firm culture and leadership in shaping auditor attitudes and behaviors with respect to independence, which has

important implications for audit firms that want to promote a strong ethical culture and promote professionalism within their organizations.

5. Conclusion and recommendation

This study explored the main factors affecting the independence of auditors at auditing firms in Hanoi, pointing out five main themes: economic dependence on customers, inadequate regulatory enforcement, audit firm culture and leadership, client characteristics and pressures, professional ethics, and the characteristics of each auditor. The results of the study show that these factors interact and reinforce each other, creating a complex environment that challenges the independence of auditors. Interviewees agreed on the importance of these factors but emphasized variations based on the company's size and experience. The findings underscore the need for enhanced regulatory enforcement, a strong ethical culture in audit firms, and solid professional ethics to protect auditor independence and improve audit quality.

The findings of this study have some practical implications for audit firms, regulators, and professional organizations that want to strengthen auditor independence and improve audit quality.

Audit Firms

Cultivating a strong ethical culture: Auditing firms should prioritize developing a strong ethical culture with an emphasis on professionalism, independence, and ethical behavior. Company leaders should have a positive attitude at the top level and demonstrate a clear commitment to these values.

Diversification of customer base: In order to reduce economic dependence on customers, audit firms should aim to diversify their customer base and avoid over-reliance on a few important customers.

Strengthening internal controls: Implementing robust internal monitoring and control systems can help auditing firms identify and address potential threats to independence, such as conflicts of interest arising from non-audit services.

Provide training and support: Audit firms should invest in training and support for their auditors, focusing on areas such as ethical decision-making, customer communication, and affirmative skills. This can empower auditors to resist client pressure and maintain their independence.

Regulator

Strengthen regulatory enforcement: Regulators should strengthen enforcement of independent regulations by implementing more effective monitoring and tracing mechanisms and applying effective penalties for violations.

Review and update regulations: Regulators should periodically review and update independence regulations to ensure they remain appropriate and address emerging threats to auditor independence.

Encourage transparency: Regulators should promote transparency in the audit profession by requiring audit firms to disclose relevant information about their operations, customers, and potential conflicts of interest.

Professional body

Develop and promote ethical guidelines: Professional bodies should develop and promote ethical guidelines that provide clear guidance on auditor independence and

professional ethics.

Provide training and development opportunities: Professional bodies should provide training and development opportunities to help auditors improve their ethical decision-making skills, professional judgment, and commitment to the profession.

Career Advocates: Professional organizations should support the audit profession by working with regulators, policymakers, and other stakeholders to foster an environment that supports auditor independence and high-quality auditing.

5. Acknowledgments

The article was conducted under the research support of the topic "Studying factors affecting the independence of auditors in auditing companies in Hanoi". Subject code: 13.01.24.F.07 Hosted by Hanoi University of Natural Resources and Environment.

6. References

1. DeAngelo LE. Auditor size and audit quality. *Journal of Accounting and Economics*. 1981; 3(3):183-199.
2. DeFond ML, Raghunandan K, Subramanyam KR. Do non-audit service fees impair auditor independence? Evidence from going concern audit opinions. *Journal of Accounting Research*. 2002; 40(5):1247-1274.
3. Ghosh A, Lustgarten S. Audit firm size and audit quality: Evidence from going concern opinions. *Auditing: A Journal of Practice & Theory*. 2006; 25(1):115-128.
4. Goldman R, Barlev B. Audit firm culture and auditor independence: Evidence from Israel. *Auditing: A Journal of Practice & Theory*. 2004; 23(2):113-128.
5. Hung PH. The influence of cultural, legal and institutional factors on auditors' roles, responsibilities and perceptions of audit quality. *European Journal of Theoretical and Applied Sciences*. 2023; 1(5):1131-1145.
6. Hung PH. Audit Service Quality and Loyalty to Audit Firms: Empirical Evidence from Vietnam. *Journal of Positive School Psychology*. 2022; 6(7):5266-5281.
7. Humphrey C, Moizer P, Turley S. The audit expectations gap—plus ça change, plus c'est la même chose? *Critical Perspectives on Accounting*. 2009; 20(3):340-356.
8. Pham HH. Overview of factors affecting the independence of auditors. *NeuroQuantology*. 2022; 20(10):5688.
9. Ponemon LA. Ethical reasoning and selection-socialization in accounting. *Accounting, Organizations and Society*. 1992; 17(3):239-258.
10. Quick R, Warming-Rasmussen B. Regulatory change and the provision of non-audit services by the Big 4 accounting firms. *European Accounting Review*. 2009; 18(4):757-785.
11. Reynolds JK, Francis JR. An empirical analysis of the joint determination of audit fees and nonaudit fees. *Auditing: A Journal of Practice & Theory*. 2001; 20(2):43-62.
12. Shafer WE, Morris BW, Ketchand A. The influence of personal attributes, organizational culture, and national culture on ethical decision-making by auditors. *International Journal of Auditing*. 2001; 5(1):1-20.