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## INDEPENDENCE AND IMPARTIALITY OF AUDITORS FROM THE VIEWPOINTS OF INDEPENDENT AUDITORS AND INVESTMENT COMPANIES

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### ABSTRACT

*This research reviews those viewpoints of independent auditors in auditing institutions that are members of the official auditors society from Iran and the staff of Holding Investment companies accepted in Iran Stock Exchange in regard to how to select auditors for auditing financial statements lists, the effect of independent auditors' practices on their independence, the effect of employers' practices on the independence of independent auditors and also the role of laws and professional standards on the independence of the auditors. The results showed that, there is a difference between two viewpoints about how to select independent auditors and the independence of functions to independent auditors. However, there has been no differences between two kinds of viewpoints regarding the impact of the employer' performance and the role of laws and standards of independence in the auditors.*

### KEYWORDS

Auditor independence, Impartiality, Professional standards and rules.

### INTRODUCTION AND PRIOR RESEARCH

Based on theoretical principles, auditor independence refers to get free from the pressures and other factors that decline or expected to decline the auditor's power of decision making. This does not mean that the auditor must be free from all pressures and other factors affecting his decisions, but the auditor should feel safe against important factors which decline or are expected to decline his power of decision making (Mautz and Sharaf 1961, Watts and Zimmerman 1986).

Because of the importance and status of the concept of auditor independence, in the professional society much research has been conducted in all countries about the factors affecting it and different viewpoints to the beneficiary groups. (Robert 2010, Haniffa and Hudaib 2007, Zjun and Feng 2004, Beattie and Fernley 1994). Alope and ed.s (2009) in a study during the years 2001 - 2006 examined the relationship and the impact of non-audit fees and auditor independence in the capital markets. The result of their research showed the existence of relationship between auditor independence and non-audit fees. They also found that there is a negative relationship between auditor independence and the importance of employers.

Rani and ed.s (2007) in a study examined the relationship between fee payment which paid to auditors and the quality of auditing. In this research for quality auditing of the standard deviation, criteria of regression of the commitment of current items to amounts of cash value and the sum of adjusted commitment optional items. The figures and payment fees of the audits and the size the employer are used in terms of auditor independence. Hemalatha and Almudhaki (2007), in a research studied the relation between non-audit services and auditor independence in the country of Bahrain. This research examined the two groups of auditors and employers. Both groups confirmed the relation and the impact of non-audit services on the independence of auditors. Of course according to the size of the employers their vision on the amount of non-audit fees and operations in overseas companies were different. Zjun and Feng (2004), a research reviewed the expectations gap between audits and the public users of their reports in China. Using written questionnaires, they studied some items such as audit objectives, requirements and commitment of the audits to discovering and reporting the frauds, the auditor independence and their responsibilities towards the third parties. In Iran also some researches were done on the factors of the independent auditor quality from the viewpoints of auditors and users and also on the factors of increasing the independence of the research auditors in the past years (Hassasyegane 2008, Sajjadi 2007, Mojtahedzadeh and Aghaei 2004).

In this study, considering the literature and texts on the auditor independence and the standard of the four factors affecting it, compares the viewpoints of the two groups of independent auditors working in official institutions of auditors and the staff of the Holding Investment Companies accepted in Tehran Stock Exchange.

### RESEARCH HYPOTHESIS

- 1- There is a significant difference between the viewpoints of the auditors and the Holding Investment Companies on the method of selecting independent auditors.
- 2- There is a significant difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the independence of the auditors' functions.
- 3- There is not any significant difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the impact of the employers' functions on the independence of auditors.
- 4 - There is not any significant difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the role of the standards and rules on the independence of auditors.

### RESEARCH METHODOLOGY

This scientific research is empirical, method wise and descriptive (correlational) in terms of implementation Statistical Population and Sample. The statistical population of the research includes two groups. The first group is the auditors working in 180 official institutions of auditors in different levels. The second group is the 180 users of auditing services and the staff of the Holding Investment Companies accepted in Tehran Stock Exchange. The statistical sampling method is a simple random one. The research data are collected through library, field methods and the research data collection tool is written questionnaires. The questionnaire is evaluated for reliability and validity by the instructors of auditing course in AZAD University of SHAHROOD before it would be distributed among the sample of the study and then its content and sentences is adjusted. Furthermore, it is given to the financial analyzers of GHADIR Investment Corporation which presented their reformative comments on it too. Later, it is distributed among 15 independent auditors and analyzers, the results of which are examined through Cornbrash's Alpha test. The alpha rate is determined as 76 percent that is higher than the minimum rate of 70 percent. Thus, it is started to be examined initially

### STATISTICAL RESULTS

Descriptive analysis of the answers shows that 65 percent of the auditors have more than 10 years experience and 54 percent of financial analyzers have worked for more than 10 years in investment corporations. In addition, the most significant independence reversal factor is determined by 67 percent of the auditors as

to be their selection mechanism and the fees. However, 61 percent of the financial analyzers evaluated the effect of this factor on the selection of the auditors by Iranian Society of Certified Public Accountants (CPAs) and they have considered the lack of expert of the accountants in the industry under auditing as the next factor. The auditors have assessed the pressure of time budget as a significant factor in impartiality of the auditors, but the users of auditing services underestimate it and believe in inefficiency of the auditing approaches applied by the auditors.

The mean of all responses from questionnaires are calculated and the means of groups, the auditors and investment companies were tested through the descriptive statistics method of Chi-square. Confidence interval in this research is 95 percent and the Alpha is 5 percent which are dealt according to the p-value obtained from the results of each respondent groups and each pair of responders

### FIRST RESEARCH HYPOTHESIS

There is a significant difference between the viewpoints of the auditors and the Holding Investment Companies on the method of selecting independent auditors.

According to the table1, the P-VALUE shows the alpha less than 5 percent. So, the research hypothesis can be approved.

**TABLE 1: RESULTS OF FIRST HYPOTHESIS**

	Auditors	Investors
Chi-Square(a,b)	107.355	38.742
Df	10	10
Asymp. Sign.	.032	.032

### SECOND RESEARCH HYPOTHESIS

There is a significant difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the independence of the auditors' functions. According to the table 2, the P-VALUE shows the alpha less than 5 percent. So, the research hypothesis can be approved.

**TABLE 2: RESULTS OF SECOND HYPOTHESIS**

	Auditors	Investors
Chi-Square(a,b)	124.226	66.887
Df	14	14
Asymp. Sign.	.014	.014

### THIRD RESEARCH HYPOTHESIS

There is not any significant difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the impact of the employers' functions on the independence of auditor's .According to the table3, the P-VALUE shows the alpha less than 5 percent. So, the research hypothesis can be approved.

**TABLE 3: RESULTS OF THIRD HYPOTHESIS**

	Auditors	Investors
Chi-Square(a,b)	151.000	138.452
Df	10	8
Asymp. Sign.	.027	.027

### FOURTH RESEARCH HYPOTHESIS

There is not any significant difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the role of the standards and rules on the independence of auditors. According to the table 4, the P-VALUE shows the alpha less than 5 percent. So, the research hypothesis can be approved.

**TABLE 4: RESULTS OF FOURTH HYPOTHESIS**

	Auditors	Investors
Chi-Square(a,b)	76.129	151.161
Df	9	9
Asymp. Sign.	.039	.039

### CONCLUSION

According to the subject, four hypotheses have been produced to review the viewpoints of auditors and the Holding Investment Companies on the auditor independence in the auditing profession in Iran. Each of the research hypotheses has studied the independence in an aspect. The test of first hypothesis showed that independent auditors could be selected through the auditing profession according to its determined affairs, and also they could be selected with a complete authority of the employers. Even the role of the government could be a great importance in this regard. The results from the statistical test of the hypotheses confirmed that there is a significant difference between the viewpoints of the auditors and the Holding Investment Companies on the method of selecting independent auditors.

The second hypothesis studied the difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the independence of the auditors' functions. The results from the statistical test of this hypothesis confirmed the existence of such difference.

The third hypothesis studied the difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the impact of the employers' functions on the independence of auditors. The results from the statistical test of this hypothesis confirmed the existence of such difference.

The fourth hypothesis studied the difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the role of the standards and rules on the independence of auditors. The results from the statistical test of this hypothesis confirmed the existence of such difference. Studying the results of statistical tests indicates that the auditors and the users of auditing services are significantly different in the selection mechanism of the auditors and the effect of the factors on their selection; subsequently, they have not similar standpoint. These two groups have not different viewpoints in respect to professional criteria and the behavior of the employers in confronting with the auditors, but both are agree with it. As a result, professional standards in Iran shall be revised seriously in connection with the impartiality of the auditors. Meanwhile, the employers take action in their auditing contracts with the auditors in a way that is not confirmed by the consensus of the auditors and will tarnish the auditor's independence. The users of auditing services mostly believe that auditing approaches applied by the auditors are traditional and vouching-based and subsequently inefficient; so they may not help to detect the frauds.

### SUGGESTIONS

Viewpoints of auditors and investment companies are significantly different from each other on the method of auditor selection and the independence of auditing institutions. Auditors emphasize on the selection by the official auditors association, whereas investment companies emphasize on the selection by the

employers. It is therefore suggested that some new mechanisms and actions to be created and followed, and the official auditors society to be more attentive to this case.

The difference between the viewpoints of the auditors and the Holding Investment Companies receiving audit services on the effect of the auditors and auditing institutions on the auditors' functions was approved. The pressure of time budgeting and offering non-audit services and also specialization of the subjects considered by the auditors and the effect of their increasing fame are important factors in the eyes of investors and auditors. It is recommended to try to make these two types of viewpoints as close to each other as possible, as this would lead to the increase in the quality of auditing. Thus, professional organizations should take this important case into consideration.

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