Concept of 'Independence' in 'Independent Auditor'

A corporate entity is not merely a legal personification but a quintessence of 'Trust'. Various stakeholders rely and place their investments on this trustee with the premise that their investments will be procreated by expending it on purposes for which funds were sought. Given the separation of ownership and management in a corporate model, it is not possible for all to take part in the day-to-day affairs of the company which are left to the Board of Directors and key managerial personnel. Stakeholders largely rely on the published information emanating in the form of quarterly reports, annual report, auditor's report and so forth. The results that the company publish annually every year reflect the credence of trust to all those who partake in their investment process. In this process, the auditor's role is of paramount importance as he certifies on 'true and fair' view on the state of affairs of the company.

Given the toughness of situations in which businesses operate and cyclical situations which it has to undergo, a corporate growth is a bumpy affair. The global financial crisis, fall down of financial institutions in the recent past and the current sovereign debt crisis in select economies has brought forth cynicism and scepticism in the minds of investors. As a result trust on corporate integrity is at low ebb and efforts are on to rebuild it. Regulators and investors being baffled are still battling against the corporate misdemeanours and its prevention. The laws are fraught with different complexities in fixing the role and responsibility of those at the helm of affairs. How should be the person at the helm of a corporate body function? The world at large expects the directors and the auditors to be 'independent.' What constitutes being independent? There can be many views and reviews. Becoming and being independent is an individual frame of mind set and with each personality it differs. Codes on Corporate Governance have attempted to define how a director can be independent but a mere prescription is not a panacea. In the Indian context, there is a definition of an independent director in clause 49 to the listing agreement and also proposed in the Companies Bill, 2009. The society at large and the law also expects an auditor to be the repositories of trust, transparency, and, therefore, auditor should also be independent. Unlike the definition of independent director, the term 'independent auditor' is commonly used but has not been significantly defined. This brings us to explore the concept of 'independence' in 'independent auditor'. *An auditor should not only be seen as independent but also be seemingly independent.*

The legal framework, in which auditors operate, however, is not sufficiently designed in certain respects to provide the objectivity which shareholders and the public expects of an auditor in carrying out his functions. A further drawback is the lack of knowledge and understanding amongst the shareholders and public of the nature and extent of auditor's role. What auditors do achieve and what is thought to be achieved leads to an "expectation gap", which is widening and is of great concern because it reflects the realistic expectations by various stakeholders on audits being done in an independent manner. The auditors' role is to report whether the financial statements give a 'true and fair view' (not full and fair view) on the affairs of the company. His role is neither to prepare the financial statements, nor to provide absolute assurance that figures in the financial statements is correct, nor to provide a guarantee that the company will be a going concern. The going concern concept and problems are to be handled and addressed by the management rather than by auditors. Therefore, a fine-tuning and balance has to be brought forth by the auditors in their statement on the conditions on which business is now continuing and not to mention that business may be susceptible to be closed down at any time. Another issue, in the growing expectation gap on the role of auditors, is that whether the prime responsibility for the prevention and detection of fraud is of the auditors or the fiduciary responsibility of the Board. The solution to the problem lies in the support systems that the company has created by way of internal controls, constitution of independent audit committee, etc. To place a duty on the auditors to deduce fraud(s) is fraught with difficulties because he will never be in a position to state whether fraud has taken place or not. Whenever a fraud is perceived to have taken place and no material evidence is available, it may not be realistic for the auditors to bring the same to the attention of the shareholders or at best he can bring out qualifications in his report.

It is often believed that an auditors report to the shareholders but work for the management. This myth lays the stress and strain for the independence, excellence and integrity of the auditors. Auditors, in order to preserve their unblemished reputation for independence, should not have any commercial or conflict of interest in the company in which he is the auditor. The role of Audit Committee is an important area to safeguard auditors' independence and objectivity. An auditor should be seen from the point of view that his *'excellence'* in context of complying with the requirements of accounting and auditing standards, *'independent'* in submission of report to the management without fear or favour and *'integrity'* that he is true and fair to those who are concerned with him including the profession to which he is the torch-bearer. In all matters of 'Trust', you always find 'us'. This is the glory of the ICAI and its members.

-Editorial Board
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