

Statutory Auditors' Independence in Corporate Accounting Scandals : A Case Study of Satyam Computer Services Ltd.

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Abstract

Statutory auditors are professional accountants, external to the business enterprise, appointed to verify authenticity of financial statements of a corporate entity. They accept their responsibility to act in public interest. Thus, auditors play an important role in the economy in protecting stakeholders' interest. In India, Chartered Accountants (CA) perform the significant task of statutory audit of financial statements in Indian companies. Since the financial decision of a large part of the society related to businesses depends upon their opinion, professional institutions like The Institute of Chartered Accountants of India (ICAI) enforce certain regulatory pronouncements to maintain their integrity, independence, and unbiased functioning. These regulatory pronouncements require a statutory auditor to avoid circumstances that may cause threats to their independence. However, if threats are unavoidable, regulation also requires an auditor to apply safeguards available in their work environment or offered by regulation or disciplinary, academic, or non-academic measures. This framework is designed to ensure independence of the statutory auditor in an audit engagement with an ultimate goal of protecting stakeholder interest. In the present day economic environment, greed and tremendous urge to survive in the cut throat competition induces some company managements to breach accounting laws and manipulate their financial statements. Accounting irregularities in the financial statements eventually come under the regulatory radar, leading to a company's demise, thereby impacting most of its stakeholders. Every time a scandal is revealed, a question is raised regarding the auditors' sincerity, integrity, and independence. On many occasions, ensuing investigations into fraud detect an unholy nexus between statutory auditors and managements or their inadvertent negligence that caused disastrous consequences. Among many scandals in different parts of the globe, one notable Indian scandal where independence of the statutory auditor was questioned was the scandal at Satyam Computer Services. In this study, an attempt was made to analyze the extent to which independence of the statutory auditor in the said scandal was impaired and the study also identified possible causes behind it.

Keywords : Satyam Computer Services Pvt. Ltd., statutory auditor, business ethics, accounting scandal

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Professional chartered accountants, external to the business enterprise, are appointed as independent statutory financial auditors by the statute of law to verify authenticity of financial statements of a corporate entity. Based on audit evidences collected from internal and external sources, they conduct a rigorous audit procedure and state whether financial statements exhibit '*true and fair*' view of the business operation in the report prepared by them (Standards on Auditing 200). Many sections of the stakeholders believe that the audited financial statements are free from manipulation. Thus, auditors play an important role in the economy in protecting stakeholders' interests (Gupta, 2005). In India, chartered accountants (CA) perform the significant task of statutory audit of financial statements in Indian companies. Since financial decisions of a large part of the

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society related to businesses depend upon the opinion of CAs, professional institutions like The Institute of Chartered Accountants of India (ICAI) enforce certain *standards and ethical code* for their independent and unbiased functioning and safeguarding stakeholder interest (Bakshi, 2004). These professional pronouncements are supposed to maintain integrity, independence, and transparency of a statutory auditor.

In the present day economic environment, greed and the tremendous urge to survive in cut throat competition induce some company managements to breach accounting laws and manipulate financial statements. Accounting irregularities in the financial statements eventually come under regulatory radar, leading to a company's demise, impacting most of its stakeholders (Copeland, 2005). Since 1990, the world has witnessed a number of corporate accounting scandals, for example, the Scandal at Polly Peck, Enron, Parmalat, Royal Ahold, Satyam, and so forth. Every time a scandal is unearthed, automatically, questions regarding auditors' sincerity, integrity, and independence are raised. In some cases, big audit firms (e.g. PricewaterhouseCoopers, Ernst & Young, KPMG, Deloitte, etc.) were found to work in nexus with the managements to falsify financial reports, and in some other cases, their unintentional negligence resulted in disastrous consequences. Stakeholders are betrayed, and professional integrity and ethical responsibility of the auditors are questioned (Brewster, 2003). In 2009, the Indian corporate environment witnessed one such scandal at Satyam Computer Services where integrity and objectivity of the statutory auditor and accounting firm were questioned. In this study, an attempt has been made to (a) analyze the extent to which the independence of the statutory auditor in the said scandal was impaired, (b) identify the possible causes behind it.

Review of Literature

Statutory auditors' independence has always been an important topic of research for Indian as well as foreign researchers. After the Satyam scandal, when statutory auditors' independence was questioned, this issue received special emphasis in literature. Most of the literatures reviewed for this current study critically analyzed select accounting scandals with special emphasis on statutory auditors' independence in it. Existing literatures cover accounting scandals from all over the world. While some literatures consider Enron and other notable American scandals (Thibodeau & Freier, 2010), other studies consider accounting scandals at United Kingdom (UK) (Fearnley, Beattie, & Brandt, 2005).

In each of these studies, professional responsibility of statutory auditors in the backdrop of applicable regulatory framework has been critically analyzed. Specific issues that caused impairment of statutory auditors' independence in a professional engagement were identified. They are - lack of enforceability of regulatory provisions, long association between statutory auditors and management (Freier, 2004), and most importantly, provision of non-audit services (Beaulieu & Reinstein, 2006). Authors also proposed some suggestions to avoid threats to independence arising out of these issues. Statutory auditors' independence has become an issue of utmost important in India after the Satyam fraud. Banerjee (2011), in his study, represented the Satyam case and critically reviewed the statutory auditors' involvement in it. Kumar (2014) took into consideration some other accounting scandals in addition to Satyam (e.g. Reebok, Nira Radia Group, Sesa Goa, Nokia India, etc.) and conceptually discussed how the relationship between statutory auditor and management fastened the fraud. In these studies, it was observed that regulatory frameworks for statutory auditors were not strong or vigilant enough.

Hence, proper enforcement of recent Companies Act, 2013 is necessary. Das (2014), in his empirical study, analyzed the perception of students and concluded that ethics should be incorporated as a subject in university curriculum to improve the ethical orientation of the students. Ethical orientation of accounting students could be helpful in maintaining independence in professional engagements.

Research Gap

From the above discussion, it is observed that existing literatures reviewed so far critically analyzed select

corporate accounting scandals and identified professional responsibility of statutory auditors as an influencing factor behind those scams. They also identified some possible reasons that could threaten statutory auditors' independence in a professional engagement. However, none of the literatures analyzed the statutory auditors' independence in a particular accounting scandal based on select parameters that positively or negatively influence statutory auditors' independence in a professional engagement. This gap in existing literature prompted me to take up an exploratory research in this field, and analyze the statutory auditors' independence in the Satyam scandal.

Objectives of the Study

Major objectives of the study taken into consideration are as follows:

- (1) To discuss statutory auditor independence in the Indian context based on the threat-safeguard approach;
- (2) To analyze statutory auditors' independence in the Satyam scandal based on select parameters;
- (3) To draw a suitable conclusion of the study.

Methodology

Nature of Research:	Exploratory
Nature of Data:	Secondary
Sources of Data	Books, Journal Articles, Newspaper Articles, Legislations
Company Selected for Analyzing Statutory Auditors' Independence	Satyam Computer Services Ltd.
Analysis with Secondary Data	❖ Based on conceptual discussion on threats and safeguards to statutory auditors' independence, identification of parameters that influence independence of statutory auditors ; ❖ Review of current regulatory or other circumstances concerning select parameters; ❖ Unearth actual circumstances faced by statutory auditors of Satyam in relation to select parameters ; ❖ Draw the conclusion on statutory auditors' independence in Satyam based on divergence between current requirements and actual happenings.

Statutory Auditors' Independence : A Threat Safeguard Approach

Accounting professionals accept their responsibility to act in public interest. Therefore, professional accountants should be ethical in their performance of duty. In India ICAI issues a Code of Ethics that provides a conceptual framework that provides guidance on fundamental ethical principles. There are five principles in this code. They are – a) integrity; b) objectivity; c) professional competence and due care; d) confidentiality ; and e) professional behaviour. Now, as professional accountants must work towards protection of public interest, it is an important objective of this code to see statutory auditors comply with first two principles i.e. Integrity and Objectivity. Integrity requires an auditor to be honest in all professional and business relationship and objectivity requires them to avoid any form of circumstances that may give their client an opportunity to exercise undue influence on them. Compliance with these two principles requires a professional accountant to apply relevant knowledge, training, regulatory and ethical maxims appropriately (professional judgement), and to have a

questioning mindset that could identify possible misstatement in financial reports (professional scepticism). This is possible only if the professional accountant is independent from the audit client. Therefore, independence is an issue of utmost importance for professional accountants engaged to provide attestation services [Standards on Auditing (SA) 200]. Code of Ethics issued by ICAI provides a conceptual framework, where statutory auditors can identify circumstances that may pose threats to their independence and apply safeguards to reduce these threats to an acceptable level. Based on the nature of relationship between statutory auditor and audit client, threats to independence can be categorized as follows (ICAI Code of Ethics, 2009):

- (1) Self Interest Threat:** This threat can be created if a statutory auditor has direct financial interests or indirect material financial interests in the client (e.g. excessive fees provided by the client creates this threat).
- (2) Self Review Threat:** This threat is created when a statutory auditor is required to review a work which is done based on his/her own recommendations (e.g. providing consultancy services create this threat).
- (3) Advocacy Threat:** This threat is created when a statutory auditor represents a management position in a litigation or third party disputes.
- (4) Familiarity Threat:** This threat is created when a statutory auditor is familiar with audit clients (e.g. long period of association between audit client and auditor can create such a threat).
- (5) Intimidation Threat:** This threat is created when management is in a position to remove a statutory auditor over disagreement on certain issues (e.g. management control on appointment of statutory auditor creates such a threat).

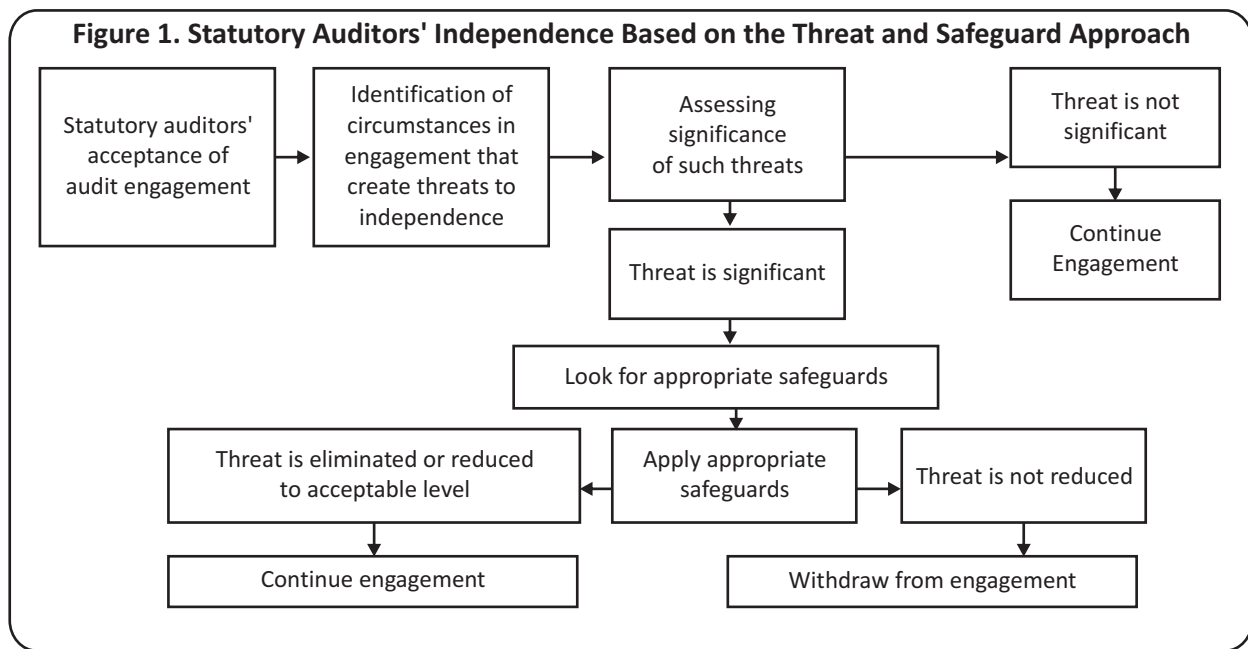
Important safeguards available to statutory auditors to reduce threats to independence to an acceptable level are cited in the following points (ICAI Code of Ethics, 2009):

- (1) Education** (imbibes ethical sense and morality in an auditor and motivates him to behave ethically);
- (2) Training, orientation, and awareness programs** (helps statutory auditors to resolve their ethical dilemma);
- (3) Audit committee** (protects statutory auditors from management control);
- (4) Regulatory Interventions** (legally bind an auditor to be independent);
- (5) Disciplinary Action** (dissuade a statutory auditor to get involved in activities that cause impairment of independence);
- (6) External Review** (makes a statutory auditor cautious about compliance with independence requirement).

The statutory auditors' independence based on the threat safeguard approach is shown in the Figure 1. From the Figure 1, it can be observed that even after applying safeguards, if a particular threat cannot be eliminated or reduced to an acceptable level, the statutory auditors should withdraw from the engagement. In this situation, if statutory auditors continue with their engagement, it can impair their independence and we can conclude that statutory auditors are not independent from their audit clients (ICAI Code of Ethics, 2009).

Statutory Auditors' Independence in the Context of a Corporate Accounting Scandal: A Case of Satyam Computer Services Ltd.

⇒ **Brief Overview of the Satyam Fraud and its Auditors** : Satyam Computer Services Pvt. Ltd. (Satyam) was the fourth largest company in the Indian computer software industry. On January 7, 2009 Mr. Ramlinga Raju, Chairman of the Board of this company confessed to the media that the Satyam management had created many



fake invoices and customers to inflate their revenue and total earnings (Bhasin, 2012). Liabilities were reportedly removed from the books, and cash and bank balance were misappropriated. He also confessed his involvement in insider trading with Satyam shares. An enquiry into the issue administered by the Central Bureau of Investigation (CBI) identified the main perpetrators of the fraud and a huge accounting scandal involving billions of rupees came to surface (Basilico, Grove, & Patelli, 2012). Mr. Subramani Gopalakrishnan and Mr. Talluri Srinivas, from Price Waterhouse, an Indian affiliate of PricewaterhouseCoopers (PWC), one of the big four accounting firms in the world, were engagement partners at Satyam when the scandal was detected (Fernando, 2010). Mr. C. Rabindranath (2001 – 2005) and Mr. P. Sivaprasad (2005 – 2008) were employees of Lovelock and Lewis, an affiliate of PW India, and served as audit managers in the engagement team (Srivats, 2011). Their role as statutory auditors was questioned when the scandal was detected. Ensuing investigation identified situations where statutory auditors failed to show appropriate professional scepticism, failed to detect material misstatement in Satyam books, and allowed the fraud to happen for a long period of time.

⇒ **Parameters Selected for the Analysis** : In the previous section, I deduced that lack of independence of statutory auditors from their audit clients is the most important reason behind an audit failure. Statutory auditor independence is impaired when threats to independence exist and available safeguards are ineffective. In the following section, I shall study statutory auditors' independence in the Satyam case in the light of select parameters that positively or negatively influence statutory auditors' independence in a professional engagement and deduce the extent to which independence of statutory auditors was lost in the said scandal. The parameters selected for the analysis are:

- (1) Professional Scepticism;
- (2) Appointment Procedure;
- (3) Provision of Non-Audit Services;
- (4) Tenure of Service;
- (5) Remuneration of Statutory Auditors;
- (6) Disciplinary Framework;
- (7) Regulatory Measures;

- (8) Role of Audit Committee;
- (9) External Review of Audit Work;
- (10) Ethical Education; and
- (11) Training, Orientation and Awareness Programmes.

Analysis of Statutory Auditors' Independence in the Satyam Fraud

Now, based on the research methodology, let us analyze the statutory auditors' independence in the Satyam scandal with the help of the aforesaid parameters.

(1) Professional Scepticism : Independence from an audit client allows a statutory auditor to perform his/her operations with professional scepticism. Professional scepticism shown by a statutory auditor refers to questioning contradictory audit evidences and reliability of documents and responses to inquiries from the management and those charged with governance. Section 227 of Companies Act, 1956 ; Section 143 of Companies Act, 2013 (passed in the parliament on August 29, 2013) ; Clause 6 & 7 of Chartered Accountants Act, 1949 issued by the Ministry of Corporate Affairs (MCA) ; and Standard on Auditing (SA) 200 titled "Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with Standards of Auditing" issued by ICAI require statutory auditors to audit specific issues in financial statements with professional scepticism (Companies Act, 1956; Companies Act, 2013; Chartered Accountants Act, 1949; and SA 200). In Satyam, statutory auditors certified integrity of financial statement in audit committee meetings just before the scandal took place (Bhandari, 2009).

They also did not confirm the validity of the invoices by taking confirmation from banks (Shirur, 2011). Therefore, it is evident that they failed to show professional scepticism in the Satyam scandal. Lack of competence and negligence could hardly be the reason of such a lacuna for an accounting firm like PWC. Therefore, lack of independence of statutory auditors from the management is considered to be the main reason behind this behaviour.

(2) Appointment Procedure : Appointment of a statutory auditor should be done by an authority independent from the management. If the management influences the appointment process, then it can intimidate the statutory auditors to give an opinion on their behalf, and the statutory auditors' independence will be lost. Therefore, as per Section 224 of Companies Act, 1956 ; Section 139 of New Companies Act, 2013; and Clause 49 of listing agreement between listed companies and stock exchanges mandated by Securities Exchange Board of India (SEBI) ; in listed companies, statutory auditors are appointed by the Board of Directors (BoD) in Annual General Meeting (AGM) as per the recommendation of the Audit Committee, a board committee independent from the management [Clause 49 (D) of Listing Agreement].

However, in case of the Satyam scandal, members of the audit committee accepted gifts, commissions, and incentives from the management (Bhandari, 2009). Therefore, this committee was not actually independent from the management. The management was able to influence the appointment process and it threatened the statutory auditors' independence.

(3) Provision of Non-Audit Services : If a statutory auditor or accounting firm provides non-audit services to its audit client in the form of consultation on preparation of financial statement, and then reviews the financial statement prepared based on their consultation, such a review will not be an independent review. Section 144 of the New Companies Act, 2013 also prohibits provision of select non-audit services by statutory auditors to their audit clients due to the same reason. However, the consulting division of PW, India provided consultancy on tax and allied matters to Satyam for a long period of time (Banerjee, 2011). Therefore, we may conclude that the statutory auditors reviewed their own work for a long period and as per the logic stated above, the review was not independent.

(4) Tenure of Service : An accounting firm associated with an audit client for audit or non-audit engagement for a long period of time develops a close relationship with the management and could be easily influenced by them to give an opinion in their favour. Therefore, the Code of Ethics, Standard on Quality Control (SQC) 1 titled “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements” issued by ICAI, Companies Act, 2013 prohibits a statutory auditor or accounting firm to be associated with an audit client for a long of period of time. The maximum period of association between an audit client and accounting firm should not exceed 10 years (ICAI Code of Ethics, 2009; SQC 1; Companies Act, 2013).

However, PW India was associated with the company for a period of 17 years (from 1991 till the date of the fraud) (Fernando, 2010). Such a long association certainly created familiarity threats to statutory auditors' independence in the Satyam fraud.

(5) Remuneration of Statutory Auditors : An accounting firm that receives huge fees from a single audit client for providing audit or non-audit services cannot be expected to give an opinion that goes against them. Therefore, determining authority and quantum of fees is an important consideration for statutory auditors' independence. As per the Companies Act, 2013, for listed companies, fees payable for audit services are decided by BOD subject to recommendation by the audit committee, and fees payable for non-audit services are decided by the management (Companies Act, 2013). As per the code of ethics and notification (No. 1 CA (7)/60/2002 dated March 8, 2002) issued by ICAI, quantum of fees received by an accounting firm from a single audit client should not comprise of a significant proportion of the total remuneration of the accounting firm, and fees charged for non-audit services should not exceed its fees from audit services (ICAI Code of Ethics, 2009; ICAI Notifications, 2002).

However, during the period of 2003-04 to 2007-08, the total fees paid to PW grew tremendously (Kumar S., 2014). In 2007-08, the fees paid by Satyam for audit services were only 6% of the total fees paid to PW India (Banerjee, 2011). This indicates that the statutory auditors were dependent upon the Satyam management for fees, which had an adverse effect on their independence.

(6) Disciplinary Framework : Disciplinary action taken against a concerned statutory auditor in an accounting scandal proves that the statutory auditor has compromised his/her independence in the scandal. In the present scenario, as per the Chartered Accountants Act, 1949 ; Companies Act 1956 ; and New Companies Act, 2013, severity of punitive action depends upon significance of fraud (*e.g. Reprimanding, Imprisonment, Monetary Sanction, Suspension etc.*) (Chartered Accountants Act, 1949).

In case of the Satyam scandal, engagement partners from PW were convicted of breach of trust, conspiracy, and forgery, and received monetary sanction (Fernando, 2010). Audit managers were also charged with a huge fine and their ICAI membership was cancelled (Srivats, 2011). These penal actions against involved statutory auditors prove that statutory auditors severely compromised their independence in the said scandal.

(7) Regulatory Measures : Whenever an accounting scandal happens, few regulatory reforms are made to address the issues that are considered to be the prime reasons behind the fraud. Therefore, reforms made to restore statutory auditor independence after a scandal indicates that lack of statutory auditors' independence in the company was an important reason behind the scandal.

After the Satyam scandal, the ensuing regulatory interventions (*e.g. mandatory rotation of statutory auditor and accounting firm, prohibition of select non-audit services to restore, stringent disciplinary policies, mandatory review of audit work, improvement of corporate governance structure etc.*) addressed few issues that caused impairment of independence of statutory auditor in the said scandal. Therefore, from the regulatory interventions taken after the Satyam scandal, it can be said that the statutory auditors were not independent in the scandal (Banerjee, 2011).

(8) Role of Audit Committee : As per Clause 49(D) of the Listing Agreement, an audit committee is a board committee comprised of non-executive independent directors of the board entrusted with the responsibility of recommending BoD with appointment, remuneration, provision of non-audit services, and removal of statutory auditor and accounting firm. These issues, if controlled by the management, will lead to impairment of statutory auditors' independence. Therefore, audit committee being an independent entity from the management ensures protection of statutory auditor independence by controlling these issues [Clause 49(D) of Listing Agreement].

However, as stated earlier, audit committee members were not independent from the management in case of Satyam, and their decision was influenced by the management of Satyam (Behan, 2009). An indirect control of the aforesaid issues by the management facilitated the impairment of the statutory auditors' independence in the Satyam scandal.

(9) External Review of Audit Work : External review of audit work examines the independence of the statutory auditor in a particular audit engagement. In India, the Peer Review Board under Council of Chartered Accountants of India performs this role. From the statement made by Mr. C.B. Bhabe, Chairman of SEBI at the time of the Satyam scandal, it was revealed that the peer review of audit work was not mandatory before the Satyam scandal and expenses for peer review was met by the audit client (Economic Times Articles, 2009). It provided them enough opportunity to control the external reviewers. Therefore, the statutory auditors' independence in the Satyam scandal could not be verified by an external authority. This allowed the statutory auditors to compromise their independence in the said scandal.

Table 1. Statutory Auditors' Independence in the Satyam Scandal Based on Select Parameters

Sr. No.	Parameter	Current Context / Regulatory Requirement	Actual Situation in the Scandal	Observation on Statutory Auditors' Independence
a)	Professional Scepticism	Statutory auditors are required to show professional scepticism [SA 200].	Statutory auditors failed to project required professional scepticism [Fernando, 2010].	For highly competent auditors of PW such lack of professional scepticism only signal their impaired independence.
b)	Appointment Procedure	Statutory auditors are to be appointed on recommendation of audit committee which is independent from management [Clause 49 of Listing Agreement].	Management controlled audit committee in appointment procedure [Bhandari, 2009].	It created Intimidation Threat to statutory auditors' independence.
c)	Provision of Non-Audit Services	Accounting firm is not allowed to provide certain consultancy services to its audit client [Companies Act, 2013].	Consulting division of PW, India provided consultancy on tax and allied matters to Satyam for a long period of time [Banerjee, 2011].	It created Self-Review threat to statutory auditors' independence.
d)	Tenure of Service	Accounting firm is not allowed to be associated with an audit client for a period more than 7-10 years [SQC 1, ICAI Code of Ethics, 2009].	PW was associated with Satyam for a period of 17 years [Fernando, 2010].	It created Familiarity Threat to statutory auditors' independence.
e)	Remuneration of Statutory Auditors	Fees received by an accounting firm from audit client for non-audit services should not exceed fees	In 2007-08 fees received by PWC for audit services was only 6% of their overall remuneration from Satyam	It created Self-Interest Threat to Independence.

Table 1 cont.

		received for audit services [Companies Act, 2013, ICAI Notifications, 2002]	[Banerjee, 2011].	
f)	Disciplinary Framework	Severe punitive actions are taken against statutory auditor convicted of lack of independence in a professional engagement [Chartered Accountants Act, 1949].	Similar punitive actions were taken against statutory auditors involved in Satyam scandal [Fernando, 2010; Srivats, 2011].	Severity of punitive actions in the scandal proves that statutory auditors in Satyam actually compromised their independence.
g)	Regulatory Measure	Regulatory reforms addressed issues that cause a scandal. If lack of statutory auditors' independence is one of such issue that will also be addressed in the ensuing reforms.	Regulatory interventions after Satyam scandal comprise reforms to restore statutory auditors' independence.	This proves that lack of statutory auditors' independence was a cause behind Satyam scam. Therefore, it was addressed in ensuing reforms.
h)	Role of Audit Committee	Appointment, remuneration, provision of non-audit services by statutory auditor, replacement or removal of statutory auditor and accounting firm has a bearing influence on their independence. Therefore, an independent body like audit committee should control this issues [Clause 49(D) of Listing Agreement].	Management indirectly controlled all these aspects in Satyam by controlling audit committee [Behan, 2009].	Audit committee failed to provide necessary safeguard to statutory auditors' independence.
i)	External Review of Audit Work	External review of audit work makes a statutory auditor more cautious towards compliance with their independence requirement.	External review was voluntary and could be influenced by the audit client [Economic Times Article, 2009].	External review was ineffective. It failed to provide safeguard to statutory auditors' independence.
j)	Ethical Education	Ethical education helps a statutory auditor to imbibe ethical sense and morality in his performance. Current syllabus for CAs is designed keeping that objective in mind.	Ethics is given less importance in current syllabus [WBROSC, 2004].	Limited ethical education failed to provide necessary safeguard to the independence of Satyam auditors.
k)	Training, Orientation and Awareness Programmes	Training and orientation help a CA to resolve their ethical dilemma with a practical approach. Mandatory audit training programs and voluntary orientation programs on professional ethics are presently in existence in India [ICAI Orientation Programs, 2014].	Lack of audit firms, restrictions on recruitment of trainees, reluctance of professional accountants, lack of harmonisation between institute and professional accountants led to failure of these programs [WBROSC, 2004].	Ineffective training and orientation programs failed to provide necessary safeguard to statutory auditors' independence in Satyam scandal.

(10) Ethical Education : Ethical education imbibes ethical sense and morality in a person which is essential, especially when the person is involved in providing audit services. Therefore, ICAI periodically reviews and modifies course curriculum on professional ethics with a practical approach and incorporates the latest development in this field. However, a portion of the total syllabus covering this issue is very less in contrast to the international requirements [World Bank Report on the Observance of Standards and Codes (WBROSC), 2004]. This limitation in ethical education was faced by the Satyam auditors as well. They failed to resolve their ethical dilemmas, and their independence was easily compromised.

(11) Training, Orientation, and Awareness Programmes : Training, orientation, and awareness programs help chartered accountants to resolve their ethical dilemmas with a practical approach. In India, ICAI mandates audit training programs for aspiring CAs in a registered public accounting firm [World Bank Report on the Observance of Standards and Codes (WBROSC), 2004]. It also conducts orientation programs to familiarize professional accountants with latest developments in the field and understand their ethical implications. However, lack of audit firms in India, general restrictions on recruitment of trainee accountants, reluctance of professional accountants to attend such programmes, and lack of cooperation between institutes and professional accountants lead to failure of these programs (ICAI Orientation Programme Schemes, 2014).

In case of the Satyam scandal as well, the statutory auditors failed to resolve their ethical dilemmas with a practical approach due to the stated limitations of these measures. Failure to resolve their ethical dilemmas led to the impairment of the statutory auditors' independence in the said scandal.

The above discussion on statutory auditors' independence in the Satyam scandal, based on the aforesaid parameters, is represented in the Table 1.

Findings of the Study

- ⇒ If statutory auditors are independent from their audit client, it is due to the professional scepticism exercised by them in their audit procedures. But in case of Satyam, the ensuing investigation found that the statutory auditors were not particularly sceptic while auditing the financial statements of Satyam. This sent a public signal about their biasness in the said scandal.
- ⇒ In the due course of the investigation, some circumstances and relationships between PW and Satyam were identified (e.g. management control on appointment of auditors, provision for non-audit services, long association, excessive fees) that created significant threats to the statutory auditors' independence.
- ⇒ When the threats were identified, the statutory auditors were required to look for appropriate safeguards available in the work environment, external review, academic, or non-academic measures. However, most of the safeguards were ineffective in the context of the Satyam scandal.
- ⇒ According to code of ethics for professional accountants, if safeguards are not sufficient or are ineffective to eliminate or reduce the identified threats to an acceptable level, the statutory auditors should withdraw from such an engagement (IESBA Code of Ethics for Professional Accountants, 2013). In the Satyam scandal, PW India faced several threats to its independence, and safeguards were also not adequate to reduce these threats to an acceptable level. However, PW never withdrew from the engagement.
- ⇒ Continuing the audit engagement in Satyam despite the presence of threats and ineffectiveness of safeguards implies that the independence of statutory auditors in the Satyam scandal was impaired to a great extent.
- ⇒ Finally, punitive action taken against the statutory auditors and the ensuing regulatory reforms proves that the statutory auditors were actually biased in their engagement with Satyam.

Concluding Remarks

In this present study, statutory auditors' independence as per code of ethics for professional accountants issued by ICAI has been conceptually reviewed. In this review, it is observed that several circumstances can create threats for the independence of the statutory auditors. The statutory auditors are required to assess the significance of such threats. If the threats are not significant, they can continue with their engagement. However, if the threats are significant, they should look for appropriate safeguards and apply the same to eliminate or reduce the threats to an acceptable level. If threats cannot be eliminated or reduced to an acceptable level, the statutory auditor should withdraw from that engagement. In case of Satyam, certain circumstances like provision of non-audit services, tenure of service, remuneration of statutory auditors, and their appointment procedure created threats to the independence of Satyam auditors.

Safeguards available in the work environment of statutory auditors or offered through regulatory interventions, education, or continuous professional development were not adequate to reduce these threats to an acceptable level. In such a situation, PW India was supposed to withdraw from the Satyam engagement. However, their continuation as a statutory auditor at Satyam is an evidence of the fact that statutory auditor in the Satyam scandal was not independent of the management.

Managerial Implications

Lack of statutory auditors' independence reducing quality of audit report allows company's fraudulent financial practices. Resultant demise of the company comes as a sudden shock to the stakeholders, what happened in Satyam fiasco. In a wake of Satyam scandal, regulatory authorities and accounting profession as a whole have taken some initiative for safeguarding statutory auditors' independence. However, more is needed to be done to prevent cases like Satyam in future. In this backdrop, this study proposes following managerial implications or recommendations for the regulatory authorities and accounting profession in India to improve statutory auditors' independence in protecting stakeholders' interest:

- ⇒ Statutory auditors are suggested to be appointed by an independent regulatory authority.
- ⇒ Chartered Accountants (CAs) engaged in providing attestation services should not get themselves involved in non-audit services.
- ⇒ The provision for mandatory rotation as proposed in recent Companies Act, 2013 should be properly enforced.
- ⇒ A ceiling on total amount of remuneration for audit and non-audit services should be made.
- ⇒ Current regulatory requirements with regard to appointment, removal, remuneration, and non-audit services should be strictly enforced.
- ⇒ Severe and prompt disciplinary actions should be taken against convicted auditors.
- ⇒ Independence of the Audit Committee should be scrutinized by the regulatory authorities and they should be given more power to protect statutory auditors from managerial threats.
- ⇒ Effectiveness of the peer review mechanism must be examined and function of National Financial Reporting Authority (NFRA) as an oversight body as per recent Companies Act, 2013 should be properly monitored.
- ⇒ Professional ethics should be given more importance in curriculum of Chartered Accountancy course. Other academic institutes should also give due importance to ethics in their accounting curriculum.
- ⇒ More number of training, orientation and awareness programmes for auditors should be launched by the institute/ Government/ non-Government organisations to deal with ethical dilemmas faced by them in a professional engagement. Effectiveness of these programmes on statutory auditors' independence should also be evaluated.

Limitations of the Study and Scope for Further Research

The important limitations of the study are stated as follows: (a) the study is based only on secondary data. No primary survey has been conducted to obtain the opinion of the concerned groups on this issue ; (b) The study is based on only Satyam scandal. No other scandal has been selected. Therefore, comparative analysis of statutory auditors' independence between two or more companies is beyond the scope of this study.

Further research studies can be conducted in the following areas :

- ⇒ Regulatory framework governing statutory auditors' independence in India can be reviewed. Lacuna of independence requirement in Indian regulatory framework can be identified by comparing it with regulatory frameworks of other countries of the world.
- ⇒ A cross company analysis of statutory auditors' independence could also be made.
- ⇒ Advanced researches can also be conducted by collecting primary data from respondents related to this field. Data so collected could be empirically analysed using statistical techniques to draw a scientific conclusion on statutory auditors' independence.
- ⇒ Lack of ethics of the management, which ultimately caused the fraud remain untouched in this paper. Hence, research work may be undertaken on this issue.

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