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The Impact of Audit Team Norms on Auditor Independence[1]

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ABSTRACT

The aspects of ethical behavior and the need to work with business ethics are not related to specific societies but rather have become a vital issue for business organizations in developing and developed countries. The concept of ethics is linked to many subjects, organizational tasks, materials, and human resources such as management, employees, work, leadership and managers. It guides and promotes good behavior, and this concept has become important for the job of the company, which is confirmed by its management because it is a self-censorship of the individual because the individual can distinguish between his right behavior and the wrong one during the work. Lawmakers have enacted laws and standards to improve the ethical conduct among auditors. However, unethical codes among auditors still happen. Audit standards require auditors to understand independence risks and to take measures to avoid contact with these risks. The suggested reason behind constrained auditor independence has been devoted to auditors' financial incentives and long audit tenure. Regulators propose auditor rotation against constrained auditor judgment induced by the auditor-client relationship. Recent researches have challenged those assumptions and questioned the potency of auditor rotation to counteract short-tenure risks to auditor independence. This study examines whether audit team norms improve the objectivity of auditor judgment. A cross-sectional design was adopted and responses from Iraqi auditors were analyzed statistically. The findings indicate that audit team norms are associated with improved auditor independence.

Keywords: *Audit Quality; Auditor Independence; Team Norms; Short-Tenure Risks.*

INTRODUCTION

The audit profession has been under increasing pressure and criticism in recent years due to fraud and material misrepresentation of the financial statements and the increasing number of lawsuits against auditors, especially after many large US companies have failed despite their audited financial statements. These pressures necessitated attention to the quality of audit, which is a necessary requirement for all parties to the audit process (auditor - audit company - the beneficiaries of audit services). The ethical obligations or the norms of the audit profession have recently been given great attention by researchers, writers, organizations and professional bodies, and their effects have been reflected in accounting literature. This concern stems from the awareness of the negative effects of deviant behavior resulting from the abandonment of certain practitioners by ethics and non- In their professional conduct. Ethical obligations consist of a set of rules, ethical principles and general morals of conduct recognized by members of the profession and which are the responsibility of their determination by competent professional organizations and bodies. The problem of the lack of commitment of some practitioners to the profession of ethical obligations and the rules of the profession leads to a lack of confidence of the public and beneficiaries of professional services and thus lose much of its objectivity, importance and status in society. In this study, the researcher is interested in mechanisms that improve auditor independence regardless of whether risks develop over a long tenure or short tenure. Bauer (2015) proposed a mechanism to manage short-tenure risks to independence which is to trigger the auditors' professional identities.

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Basically, there are numerous evidences that a long-term tenure of auditors may reduce the auditor's independence and audit quality (Bamber & Iyer, 2007; Svanberg & Ohman, 2015). Other evidences suggest that a long-term tenure of auditors can improve auditors' knowledge and enhance audit quality (Gul et al., 2009). Regardless of which viewpoint is correct, in accounting literature, the auditor constrained independence is treated as an issue that relates to the auditor's financial dependence on the client and the close relationship between the auditor and the client (Brooks et al., 2015). In this context, the auditor's rotation is often suggested as a countermeasure to increase the auditor's independence (e.g. Haynes et al 1998; Kadous, Kennedy, & Peecher, 2003; Carey & Simnett, 2006; Dhaliwal, Gleason, Heitzman, & Melendrez, 2008; Hollingsworth & Li, 2012). According to Institute of Internal Auditors (IIA), the international association of auditors and the author of the important auditing standards, independence as 'a balanced assessment of all the relevant circumstances…not unduly influenced by auditor's own interest or by others in forming judgments.' In other words, the auditors' independence means that the auditor makes his judgment only on the basis of facts and has an unbiased view of the existing circumstances. In other words, the auditor will do his/her work and not be affected by others. Clearly, when the auditor looks at how his findings and opinions will affect others, his independence will be undermined.

The necessity for auditor independence arises from the fact that many of the important issues involved in the preparation of financial statements are related to questions of judgment rather than questions of fact. The auditors are required to review the followed process and the options selected by managers to prepare financial statements. In fact, auditors should comment on whether the financial statements present a favorable picture of the financial situation and the consequences of the company's operations. The auditor's independence requires that the opinion of the auditor be expressed in the light of all available evidence and professional judgment. Also, independence requires the use of a robust auditor's approach to opposing, if necessary, mismanagement by managers. According to recent evidence in the accounting literature, auditor independence may be constrained even if the relationship with the client is short in duration. Therefore, auditor rotation is not an absolute solution to improve auditor independence (Bauer, 2015). So, research needs to consider other mechanisms to counter independence risks. In this study, the researcher is interested in mechanisms that improve auditor independence regardless of whether risks develop over a long tenure or short tenure. Bauer (2015) proposed a mechanism to manage short-tenure risks to independence which is to trigger the auditors' professional identities.

IMPORTANCE OF CODE OF ETHICS

The establishment of regulations and rules for the practice of various professions, especially the profession of accounting and auditing, is an urgent necessity, especially in light of the financial scandals and subsequent restrictions on the activities and activities of the business. These rules and regulations include all the activities, principles, rights and duties that must be complied with in the practice of work professional, which has led to the adoption of these principles and rules as a fundamental encouragement for employees, directors and board members to think and make decisions through a system of common values.

The Iraqi Union of Accountants and Auditors (IUAA) has adopted the Regulation of external and internal Audit Act No. 7 of 1984. This system is divided into six sections as follows:

- Neutrality and professional independence.
- Professional secrecy and Credibility.
- Publicity and announcement.
- Auditing Fees.
- Responsibility for default and negligence.
- General Provisions.

This system is not limited to the rules of professional conduct, but includes matters related to the auditing standards. It is best to issue a document on independent professional rules of conduct, as well as a separate section entitled "Professional competence" which ensures the requirements required by the auditor and the skill required to complete the work. The professional conduct has included five key rules:

1. Integrity: It implies the auditor's fairness, honesty and incorruptibility. If the auditor meets these requirements, then there will be trust and credibility in relation to the results obtained by the auditor. Thus, the auditor must exercise his profession in compliance with the law and with its application (legitimacy), not to perform illegal activities, to support the ethics of the audited entity.
2. Independence: It is the duty of all auditors not to cooperate in their professional or commercial judgment because of bias or conflict of interest or the undue influence of others. The professional auditor may also be exposed to cases that may weaken his subjects.
3. Objectivity manifested by the internal auditors will be reflected both in the preparation of the reports (accurate and objective), as well as in expressing conclusions and opinions that should be based only on the documents obtained and analysed in compliance with the audit standards, on the useful information coming from various sources (the point of view of the audited entity, the pertinence of the points of view expressed, the relevant circumstances).
4. Confidentiality implies that any internal auditor should keep the professional secrecy related to the facts, information or documents used in exercising the professional competences. None of the above-mentioned elements can be used to satisfy personal interests or interests of third party stakeholders directly or indirectly interested in the activity carried out by auditors. Such information may only be disclosed under certain situations provided by the legal norms.
5. Competence in exercising the profession implies that internal auditors should fulfil their professional duties with professionalism, competence, impartiality, in compliance with the international standards set for this profession, applying the knowledge, skills and experience acquired.

METHODS

The paper uses a qualitative approach to research and it uncovers trends in opinions, thought patterns, and facts regarding the issue of the effect of the audit team norms on the audit of objectivity. Mainly, the article is based on textual analysis from secondary sources; books, journal articles, government publications, and Internet sources in particular.

Materials of Research

The study derives facts from a broad range of administrative and academic works in building on the arguments of audit objectivity and auditor independence. Firstly, there is the use of scholarly articles as reference points when writing down the paper. Articles have advised a significant part of the document. Most of the articles are academic while others come from administrative quarters and so they are in the public domain. Secondly, this article derives information from professional websites in forming the arguments. It has exploited various online sources that are deemed credible for using in academic work. The authors' highest credentials are publicized and are verifiable in a website that is deemed fit for sourcing factual material. Also, credible online sources talk about the publication dates and publishers of the content that they hold. In this sense, it is possible to tell the relevance and validity of the facts that they publish for readers to absorb. Finally, the paper heavily borrows from academic books when applying theoretical knowledge regarding the impact of audit team norm on the audit objectivity. Books are the most detailed sources of information concerning this topic and for this article in particular.

Inclusion Criteria

When undertaking the systematic literature review, it was important to develop of criteria of deciding the materials to be used when developing the article. In the research, the criteria were basically built on the nature of the research topic; the impact of audit team noms on the auditor independece and then the objectivity of the audit in Iraqi audit firms. The sources had to be relevant to the subject of audit team norms and their impact on the audit objectivity and auditor independence. For articles, they had to be peer-reviewed in order to ensure that they have accurate and sound information regarding the topic. All the sources employed, had to be less than ten years from the time that they were published to ensure relevance of their content.

Ethical Issues

All pieces of article require that the author observes ethical issues not to infringe on intellectual rights of other people's works. Information from all the sources was obtained lawfully without the duplication of a scholar's original work. Ideas borrowed from other people's works are recognized through proper referencing to indicate the source of a given matter of fact. It is ethical that all pieces of information used in the process of conducting research are reported accurately in the final paper. In this sense, endeavours have been put towards ensuring that all the theoretical ideas and data borrowed from other authors' works are transferred accurately in this final paper.

THE RESEARCH METHODOLOGY

Problem of the Study

That the problem of research indicates that some auditors do not abide by the ethics, behavior and rules of the profession, despite their knowledge of them. The other problem is that some auditors may not know the rules of the profession, including their behavior and ethics, and the other section of the auditors do not take the professional care required in the performance of the audit profession, including ethics, behavior and rules.

Significance of the Study

The auditing profession requires the auditor to add confidence to the lists, financial reports, data and information attached to it and this trust is needed by many quarters in the community. For this reason, the ethics and behavior of the profession and its rules are very important for the auditor without them, the auditor no matter what work cannot benefit from the financial statements to obtain the confidence required. Hence the importance of studying the subject of this research on ethical obligations and professional rules of conduct (norms) for auditors.

Objectives of the Study

The study aims at clarifying the audit team's awareness to the importance of knowledge of the ethics, conduct and rules of the profession, and the importance of their observance in practicing the profession. Additionally, the study aims to stating how audit team's non-compliance to the profession norms affect the auditor's independence and the audit objectivity as well.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Based on motivated reasoning theory, in response to efficiency concerns, auditor judge in favor of client preferred alternatives (Bierstaker, Bedard, & Biggs, 1999; Glover, Prawitt, Wilks, & McDaniel, 2005; Haynes et al., 1998). Cianci and Bierstaker (2009) state auditors assess internal control effectiveness higher, and positive information about controls as more relevant, under high (compared to) low time budget pressure. In fact, when time budget pressure is high, auditors overestimate the quality of clients' internal control and justify reduced audit quality acts to themselves. Svanberg and Ohman (2015) argue that auditors who have overly close relationships with their clients tend to acquiesce to the client-preferred accounting status due to the same mechanism, which leads to overestimation of the quality of the client's internal controls. They believe that the same mechanisms reduce audit quality and auditor's independence in a close relationship between the auditor and the client. The researcher proposes that audit team norms may be an effective solution for bias stemming from the overestimation of internal control quality that happens when time budget pressure is high or when auditors have close relationships with clients. Indeed, audit team norms may be an effective solution in both cases.

The extent to which a person may exhibit a particular behavior to a large extent depends on the norms of a group which the person is a member. In terms of ethical decision making, norms have attracted much attention where the perceived social pressure found to influence ethical intentions (Ajzen, 1991). Chatman and Flynn (2001) defined team norms as "legitimate, socially shared standards against which the appropriateness of behavior can be evaluated". Norms regulate team behavior by providing 'implicit guidelines' for members. According to De Jong, de Ruyter, and Lemmink (2005), team norms are strong when there is a consensus about the best behavior among team members.

Norms set out what may be done in situations based on the interactions of group members. Bettenhausen and Murnighan (1991) argue that norms may be considered as regular behavioral patterns that are stable and expected by other group members. Narayanan, Ronson, and Pillutla (2006) believe that cohesion affects positively the individual's conformity to group norms. Individuals in a group will have a greater willingness to behave ethically when the norms of the group support moral behavior. Thus, they conclude that group norms moderate the effect of cohesion on unethical behavior.

The researcher assumes that norms in an audit team can have a positive effect on an individual member's behavior regarding appropriate organizational practice. Hooks et al. (1994) note that social influences such as team norms may color one's perception of the seriousness of the wrongdoing.

Accordingly, the researcher states the following hypotheses:

> *H1: Audit team norms affect auditor independence*
>
> *H2: Audit team commitment to the ethics and the conduct of the profession and its rules leads to better presentation and better results of the audit process.*

EMPIRICAL ANALYSIS

Sample and Data Collection

The statistical population of this research is all the managers of the audit organization and private audit institutions of the member of the Iraqi Association of Certified Public Accountants (IACPA). The selection of this group of auditors for this research is due to two reasons: First, this group is one of the pillars of the audit hierarchy. Secondly, since they have at least three years of audit experience, they have established attitudes and behaviors. 347 questionnaires were distributed among members of the community, taking into account questionnaires that could not be returned. After the successive attempts, 121 questionnaires were finally collected.

Model of Analysis

The researcher adopts a cross-sectional research design to examine the association between audit team norms and auditor independence, measuring the impact of audit team norms on auditor independence. For this purpose, the researchers uses the scenario designed by Swanberg and Ohman. According to the scenario, the auditor thinks that an accounting issue is important however the client disagrees. The auditor is asked to consider this scenario regarding his largest client. The extent to which the auditor may resist and do not submit to the client's opinion indicates his independence. The researcher uses a team norms instrument (4 items) developed Hackman (1987). This instrument especially reflects the occurrence of strong norms with regard to consensus among team members on how to solve work problems, rather than the content of norms.

Instrument and Measure

The instrument for team norms was based on the work of Hackman (1987). Following Hackman's notion of norms, our operationalization especially reflects the occurrence of strong norms with regard to consensus among team members on how to solve work problems, rather than the content of norms. In this part of the questionnaire, using a six-point Likert-type scale, asked respondents to respond to items. Moreover, the questionnaire contained a short case, adapted from research into auditor behavior in audit conflict situations (Bamber & Iyer, 2007; Knapp, 1985). Respondents were asked to respond based on limited information and consider this case regarding their largest client. The case describes a situation that there is a discrepancy between the auditor and the client about the significance of a certain unrecorded debt discovered by the auditor during the audit. Respondents were asked about the likelihood that they would accept the client's view of the non-significance of these debts and the lack of adjustment of financial statements. They were asked to indicate their response as a likelihood of 1 (very low likelihood) to 10 (very high likelihood). Responses to this case are a measure of auditor independence. A lower score represents a lower likelihood that the auditor would acquiesce to the management demand and maintain objective judgment. (Svanberg and Ohman, 2016).

The appendix presents the measures used. All of these measures were adapted from scales validated in previous research (Hackman, 1987; Svanberg and Ohman, 2016).

RESULTS

Descriptive Statistics

In Table 1 demographic information about the respondents is summarized. Based on results, most respondents were men, most worked for private audit institutions. On average, the respondents were 46 years old and had been auditors for just over 22 years. The average audit team norms is 3.40 above the scale midpoint.

Table 1
DESCRIPTIVE STATISTICS

Variables	Frequency (%)	Mean	Standard Deviation	Median	Mix.	Min.
Male	89					
Female	8					
Audit Organization	25.40					
Private Audit Institutions	71.50					
Age (years)		44.91	8.83	44	28	62
Auditor Experience (years)		21.04	8.90	20	6	45
Auditor Independence (1-10)		2.98	5.2	2	1	8
Audit Team Norms (1-6)		3.40	1.10	3	1	5

*Variables = Auditors classified as male or female, and either audit organization or private audit institutions auditors.
*Age = the auditor's age in years.
*Auditor experience= the length of time the auditor has worked as an auditor (in years).

Hypothesis Test Results

Table 2 illustrates Pearson product–moment correlation coefficients (Pearson's correlation, for short) for the variables. This coefficient is a measure of the strength and direction of association that exists between several of the variables. The correlations between audit team norms and auditor independence is significant (p<.05), indicating preliminary support for H1.

Table 2
PEARSON PRODUCT–MOMENT CORRELATIONS

Variables	Audit Team Norms
Auditor Independence	-0.413*

*p<.05

Table 3 presents data from a multiple regression of auditor independence, and the analysis provides support for H1 about the impact of audit team norms on auditor independence, because the coefficient for audit team norms is significant (p<.01).The regression clearly shows the negative impact of audit team norms on the likelihood that the auditor will acquiesce to the client's preferred treatment. This indicates that audit team norms encourage auditor independence. It seems to discourage auditors should 'do as they are told'.

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Table 3
MULTIPLE REGRESSION OF AUDITOR INDEPENDENCE

Dependent Variables	Predicted sign	Coefficient	Significance	VIF
Audit team norms	-	0.386	0.002	1.115
Auditor experience	-	0.126	0.059	1.653
R2		).315		
Adj. R2		).296		
F		).526		
Significance		).000		

Significance values refer to two-tailed tests. Variables: ‘Audit team norms’ are standards that are shared by team members which regulate team behavior. ‘Auditor independence’ is the extent to which an auditor acquiesces to the client-preferred treatment. The number of observations is 121. VIF is the measure of collinearity.

DISCUSSION AND CONCLUSIONS

The researcher extends previous literature by evaluating the extent to audit team norms might protect against deteriorating auditor independence. Independence is a matter of mind and means freedom from any bias. The realization of this requires the use of facts and the lack of involvement of personal feelings, bias, and prejudices. This means that two people with the same level of expertise will achieve the same result in dealing with reality and conditions. Independence in auditing means the subjective attitude without bias in an audit work that allows auditors to perform their tasks and programs in a way that they believe in. In other words, independence requires auditors to not subject their judgments in audit issues to others. Norms are the informal rules that guide team employee’s behavior. The existence of service quality-oriented norms implies high agreement among team members and increase the involvement with the team working procedures. Wageman (1997) argue that to strengthen team norms, periodical meetings could be organized during which team members’ can discuss, for instance, the effectiveness of working procedures.

This study contributes to the accounting literature in these ways. First, audit team norms have the potential to affect auditor independence continuously and thus it may help to reduce both short-tenure and long-tenure risks. The ways to cope with the short-tenure risks have generally been ignored in previous researches. Second, audit team norms is an instrument that, could be commanded by management. But most previously considered methods that improve auditor independence or reduce the effects of inappropriate client relationships on auditor independence cannot be controlled by audit firm management.

Our main results suggest that auditors in firms with stronger team norms make more objective decisions, in terms of non-acceptance of the client’s preferred accounting position, than do auditors in audit firms with weaker team norms. In conclusion, our findings indicate that auditors are more likely to make objective judgments in stronger team norms. This result is consistent with Alleyne, Hudaib, and Pike (2013), because they concluded that the extent to which the team expresses similar and strong team norms regarding ethical practices in an organization may affect how an individual member is likely to engage in ethical behavior.

Although the results of this study should be interpreted cautiously due to several limitations (e.g. the general limitations of survey research and the way of measuring auditor independence using a constructed scenario developed by Svanberg and Ohman (2016)), the findings seem important in light of the other mechanisms that regulators have used to enhance auditor independence. The goal of most of these methods, including IESBA’s Code of Ethics for Professional Accountants, is to inform auditors of the risks arising from strong client relationships. For instance, Iraqi audit standards require that auditors assess their relationships with customers and document the potential risks they perceive and that quality assurance measures be initiated based on the outcome of this self-assessment. The problem with this way of dealing with independence is that it is difficult for the auditor to explore the causes of judicial bias. In addition to demand that auditors evaluate independence threats and auditor rotation, strong audit team norms is an instrument that has not previously been considered in relation to auditor independence.

RECOMMENDATIONS

The study recommends that:

1. Issuing a code of professional conduct related to accounting and auditing profession in Iraq according to the Iraqi laws and regulations.
2. Organizing workshops and conferences discussing professional ethics in order to promote auditors' compliance with professional ethics and code of professional conduct.
3. Developing laws and regulations, which relate to auditing profession, with taking into consideration giving more attention to professional ethics.
4. Adding a special course of study with the title of (accounting and auditing professional ethics) in the study plans for accounting departments at Iraqi educational institutions.

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APPENDIX

Measures Used

Auditor Independence

Please respond to the following brief audit case. Normally, you need to know more about how to respond. However, we ask you to respond based on limited information. Consider the same for your biggest client. In the current year's audit, there was a discrepancy between you and the client about the significance of a certain unrecorded debt discovered by you during the audit. Firm guidelines and professional rules do not provide a certain answer on the materiality of this unrecorded debt amount. In your opinion, this debt is significant, while the client is strongly opposed to you. The owner argues that the amount of unpaid debts is irrelevant and so the adjustment of financial statements is unnecessary. As an auditor, how likely is it that you will accept the owner's view of the non-significance of these debts and the lack of adjustment of financial statements? Please indicate your response as a likelihood of 1 (very low likelihood) and 10 (very high likelihood).

Team Norms

1. Within the Iraqi team, standards are developed to judge our performance by.
2. Our team members share common expectations about the conduct of all workgroup members.
3. Iraqi team members have identified the strengths and weaknesses of the individual workgroup members.
4. Iraqi team members share common expectations about the conduct of particular workgroup members with specific responsibilities.