This chapter summarizes the findings and conclusions of the study. Primarily, it covers chapter-wise summary i.e. Introduction, Review of Literature, Research Methodology, Analysis of Impact of Non-audit service and Long Audit Tenure and Opinion Survey together with abridgement of findings of the study.

6.1 SUMMARY OF FINDINGS AND CONCLUSIONS

Summary of findings and conclusions of present study have been presented on following lines:

6.1.1 Introduction

At the outset, introduction of concept of Auditor’s Independence in India, significance of present study, various threats and safeguards to Auditor’s Independence and different legislations governing Auditor’s Independence have been explained in the first chapter. There are various threats that undermine Auditor’s Independence. Broadly they can be environment based, Remuneration based, Relationship based and Service based threats. Also, safeguards are available that can used as tool to protect independence of an Auditor. Therefore, it has been tried to give an overview of them. Lastly, the various national and international legislations for protection of Auditor’s Independence has been discussed.

A summarized tabular presentation of chapter’s major points has been given in table

<table>
<thead>
<tr>
<th>I. Threats to Auditor Independence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment Based Threats</td>
</tr>
<tr>
<td>• Client’s corporate culture</td>
</tr>
<tr>
<td>• Audit firm’s work culture</td>
</tr>
<tr>
<td>• Reporting standards</td>
</tr>
<tr>
<td>• Auditing framework and procedure</td>
</tr>
<tr>
<td>Relationship Based threats</td>
</tr>
<tr>
<td>• Dual employment</td>
</tr>
<tr>
<td>• Family relationship</td>
</tr>
<tr>
<td>• Long auditor client relationship</td>
</tr>
<tr>
<td>• Gift from client</td>
</tr>
<tr>
<td>• Intimidation from client</td>
</tr>
<tr>
<td>Remuneration Based threats</td>
</tr>
<tr>
<td>• Inadequate funds</td>
</tr>
<tr>
<td>• Fear of losing source of revenue</td>
</tr>
<tr>
<td>Service Based Threats</td>
</tr>
<tr>
<td>• Self Review threats</td>
</tr>
<tr>
<td>• Advocacy threats</td>
</tr>
</tbody>
</table>

262
### II. Safeguards to Auditor’s Independence

| Audit Engagement Control | • Auditor Appointment and Removal Control  
| • Auditor-client Relationship control  
| • Audit Fee control  
| • Audit Service Control  
| • Audit Process Control |
| Internal Governance Measures | • Audit Client Measures  
| • Audit Firm Measures |
| Oversee of Auditor’s Role | • Oversee of Profession  
| • Oversee of Individual Auditor. |

### III. Indian legislations for protection of Auditor’s Independence

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Legislation</th>
<th>Provisions</th>
</tr>
</thead>
</table>
| 1. | Companies Act 1956 | Appointment of a person as company auditor is prohibited if he is:  
| | | • an officer or employee of the Company;  
| | | • a partner of a person in the employment of an officer or of an employee of the Company;  
| | | • a person who is indebted to the company for an amount exceeding Rs. 1000;  
| | | • a person who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding Rs. 1000;  
| | | • a person holding any security of that company |
| 2. | Companies Bill 2009 | • Individual Auditor shall not be reappointed for three years in same company after completion of 5 year tenure.  
| | | • Audit firm shall not be reappointed for five years in same company after completion of 5 year tenure.  
| | | • Auditor should be appointed by Registrar of Companies from panel of Chartered Accountants.  
<p>| | | • Auditor appointed under the act not to provide accounting and book keeping service, internal audit, design and implementation of any financial inform system, actuarial services, investment advisory services, investment banking services, rendering of outsourced financial services and management services to audit client. |</p>
<table>
<thead>
<tr>
<th>3.</th>
<th>Corporate Governance Voluntary Guidelines 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>Company contravening the provision punishable with fine and officer in default punishable with imprisonment.</td>
</tr>
<tr>
<td>-</td>
<td>Auditor contravening the provision shall be punishable with imprisonment and fine.</td>
</tr>
<tr>
<td>4.</td>
<td>CII Task Force Report</td>
</tr>
<tr>
<td>-</td>
<td>Appointment of auditor shall be made on recommendation of audit committee.</td>
</tr>
<tr>
<td>-</td>
<td>Certificate of Independence to be obtained from auditor.</td>
</tr>
<tr>
<td>-</td>
<td>Audit partner to be rotated once every three year.</td>
</tr>
<tr>
<td>-</td>
<td>Audit firm to be rotated once every five year.</td>
</tr>
<tr>
<td>-</td>
<td>A cooling off period of three year for partner and five year for firm should elapse before auditor can resume position in same company.</td>
</tr>
<tr>
<td>5.</td>
<td>Naresh Chandra Committee</td>
</tr>
<tr>
<td>-</td>
<td>Revenue of audit firm from single client should not be more than 10% of total revenue.</td>
</tr>
<tr>
<td>-</td>
<td>Certificate of Independence to be obtained from auditor.</td>
</tr>
<tr>
<td>-</td>
<td>50% of audit team should be rotated every six years.</td>
</tr>
<tr>
<td>-</td>
<td>Cooling off period of 3 year should elapse before a partner can resume position in same company.</td>
</tr>
<tr>
<td>-</td>
<td>Prohibition on auditor for direct financial interest, receiving any loans, business relationship, personal relationship, service in two year cooling period and undue dependence on the audit client.</td>
</tr>
<tr>
<td>-</td>
<td>Prohibition on Accounting and bookkeeping services, Internal audit services, Financial information systems design and implementation, Actuarial services, Broker, dealer, investment adviser or investment banking services, Outsourced financial services, Management functions, including the provision of temporary staff to audit clients, Any form of staff recruitment, and particularly hiring of senior management staff for the audit client, Valuation services and fairness opinion to be provided by an auditor to client.</td>
</tr>
<tr>
<td>-</td>
<td>For listed companies, whose paid up capital and free reserves exceeds ₹10 crore or companies whose turnover exceeds ₹50 crore, 50%</td>
</tr>
<tr>
<td></td>
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<tr>
<td>---</td>
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</tr>
<tr>
<td><strong>members of audit team should be rotated every five year</strong></td>
<td></td>
</tr>
<tr>
<td>- Cooling off period of 3 years should elapse to resume the position in same company.</td>
<td></td>
</tr>
<tr>
<td>- Certificate of Independence to be submitted by auditor.</td>
<td></td>
</tr>
<tr>
<td>- Setting up of Independence Quality Review Board.</td>
<td></td>
</tr>
<tr>
<td>- Disciplinary mechanism for auditor in form of prosecution directorate, disciplinary committee and publication of decisions of the disciplinary committee.</td>
<td></td>
</tr>
<tr>
<td><strong>6.</strong></td>
<td><strong>Companies Act 2013</strong></td>
</tr>
<tr>
<td>- Rotation of individual auditor after 5 years.</td>
<td></td>
</tr>
<tr>
<td>- Rotation of audit firm after two terms of 5 consecutive years.</td>
<td></td>
</tr>
<tr>
<td>- Cooling off period of 5 years should lapse to resume the position in same client company.</td>
<td></td>
</tr>
<tr>
<td>- Auditor not to provide prohibited non-audit services such as Accounting and bookkeeping services, Internal audit, Design and implementation of any financial information system, Actuarial services, Investment advisory services, Investment banking services, Rendering of outsourced financial services, Management services</td>
<td></td>
</tr>
<tr>
<td>- Company contravening the provision shall be punishable with fine of ₹ 25,000 to ₹ 5,00,000 and every officer in default shall be punishable with imprisonment up to one year and fine of which may vary between ₹10,000 to ₹1,00,000.</td>
<td></td>
</tr>
<tr>
<td>- Auditor contravening the provision shall be punishable with fine which may vary between ₹ 25,000 to ₹5,00,000.</td>
<td></td>
</tr>
<tr>
<td>- Auditor contravening the provisions knowingly shall be punishable with imprisonment which may extend to one year and fine varying between ₹ 1,00,000 to ₹ 25,00,000.</td>
<td></td>
</tr>
<tr>
<td><strong>7.</strong></td>
<td><strong>SA-220 Standard on Quality Control of Audit of Financial Statement</strong></td>
</tr>
<tr>
<td>- For compliance with independence requirement the engagement partner shall obtain relevant information from the firm, evaluate information on identified breaches and take appropriate action to eliminate threats arising from such breaches.</td>
<td></td>
</tr>
<tr>
<td><strong>8.</strong></td>
<td><strong>SA-200</strong></td>
</tr>
<tr>
<td>- While performance of duty, auditor is subject to ethical requirements of Integrity, Objectivity,</td>
<td></td>
</tr>
</tbody>
</table>
| Overall objectives of an Independent Auditor and conduct of an Audit in Accordance with Standard on Auditing | Professional Competence and Care, Confidentiality and Professional behavior.  
- Requirement to have an attitude of Professional Skepticism which means auditor’s alertness towards information provided.  
- Requirement to exercise Professional Judgment which means auditor’s decision to be taken out of his professional experience. |
|---|---|
| 9. SQC 1 Quality Control for firms that perform Audits and Review of Historical Financial Information and other Assurance and Related Service Engagements | Ethical requirements of Integrity, Objectivity, Professional competence and due care, Confidentiality and Professional behavior.  
- Establishment of policies and procedures to maintain independence.  
- Annual written confirmation of compliance with policies and procedures from all firm personnel.  
- As a safeguard against familiarity threat, rotation of engagement partner after a period of 7 years. |
| 10. Sarbanes Oxley Act(SOX) | An auditor not be provide to its client company Bookkeeping or other services related to the accounting records or financial statements of the audit client, Financial information systems design and implementation, Appraisal or valuation services, fairness opinions, or contribution-in-kind reports, Actuarial services, Internal audit outsourcing services, Management functions or human resources, Broker or dealer, investment adviser, or investment banking services, Legal services and expert services unrelated to the audit and any other service that the Board determines, by regulation, is impermissible.  
- Preapproval of auditing service and non-auditing service other than above by the audit committee.  
- Rotation of Audit partner after a period of 5 years.  
- Auditor report to audit committee regarding critical accounting policies, alternative treatment of financial information and written communication between firm and management.  
- Accounting firm should not perform audit if any person serving in senior position was employed |
by that firm during 1 year period preceding the date of initiation of audit.

<table>
<thead>
<tr>
<th>11.</th>
<th>Cadbury Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Development of accounting standards to provide reference points for auditor to take professional judgment.</td>
</tr>
<tr>
<td></td>
<td>• Formation of audit committee for every listed company.</td>
</tr>
<tr>
<td></td>
<td>• Prohibition on Non-Audit service</td>
</tr>
<tr>
<td></td>
<td>• Compulsory rotation of audit firms, to prevent relationship between auditor and management.</td>
</tr>
</tbody>
</table>

6.1.2 Review of Literature

In this chapter, various studies that had been done on research problem are classified in different categories. The literature review had been classified in three categories namely Overview of Auditor’s Independence, Impact of Non-Audit Services and Long Audit Tenure, Residual factors affecting Auditor’s Independence. It had been found that most of the researchers have tested impact of Non-Audit Service or Long Audit Tenure. In large number, work had already been done for analyzing effect of different variables like Audit Committee, Type of Auditor etc.

In reviewed literature, it had been found that some studies conclude that providing Non-Audit service to an auditor jeopardize his independence while some studies reveals that provision of Non-Audit Service enhances auditor’s understanding of client’s business. Similar findings are there regarding auditor’s tenure in past studies i.e. it can impair Auditor’s Independence because of close and familiar relationship over the year whereas some other are of view that because of long audit tenure the knowledge of auditor enhances which in turn improves audit quality.

It had been also observed that work done is largely based on primary data collected for seeking perception of various stakeholders. For empirical analysis techniques of Z, ANOVA, Mann-Whitney U test etc. techniques are used. In studies where secondary data had been used, different regression techniques had been used as per nature of information. In major number of studies, sample consists companies from stock exchanges of respective countries.
After reviewing earlier work, it had been identified that in Indian context very few researches have been done on Auditor’s Independence. More specifically, at national level, studies of impact of Non-Audit Service and long Audit Tenure on Auditor’s Independence are rare. Therefore, the current study had been attempted to fill this research gap by analyzing impact of these variables on Auditor’s Independence along with exploring general awareness on the issue.

6.1.3 Research Methodology

In current study, it had been aimed to examine impact of Non-Audit Service and Long Audit Tenure on Auditor’s Independence. Further, it had also been endeavored to uncover the perceptions of different categories of respondent regarding impact of banned Non-Audit service on Auditor’s Independence, influence of Non-Audit service on ethical behavior of an auditor and influence of long audit tenure on Auditor’s Independence.

For achievement of above objectives, secondary data of S&P BSE 500 companies had been selected as sample. Data had been collected from Prowess software available in University Campus. The data filtration of sample has been shown in following table:

**Table 6.2: Sample Filtration for Secondary Data Analysis**

<table>
<thead>
<tr>
<th>Sample</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies of BSE S&amp;P 500 as on 23rd November 2016</td>
<td>500</td>
</tr>
<tr>
<td>Removed : Banking and financial Sector</td>
<td>78</td>
</tr>
<tr>
<td>Remaining Companies</td>
<td>422</td>
</tr>
<tr>
<td>Removed : Companies having listing Age less than 5 years</td>
<td>27</td>
</tr>
<tr>
<td>Final Sample Companies</td>
<td>395</td>
</tr>
</tbody>
</table>

From initial sample Banking and financial companies had been removed as their audit is done as per Banking Regulation Act 1949, further those companies were also removed whose listing age is less than 5 years. The questionnaire had been used as a tool to seek responses from different categories of respondents. For
analysis of primary data Z and ANOVA had been used whereas Binary logistic and Multiple Regression for secondary data. The extensive detail of different variables adopted for the study, importance of different category of respondent, diagnostics parameters had been given in the chapter.

6.1.4 Analysis of Non-Audit Service and Extended Audit Tenure

The fourth chapter was based on analysis of secondary data for exploring impact of Non-Audit service and Long Audit Tenure on Auditor’s Independence. For such analysis Binary Logistic Regression and Multiple Regression had been adopted for non-audit service and long audit tenure respectively. The summary and conclusion of both analysis have been presented below:

6.1.4.1 Results of Binary Logistic Regression: The findings of analyses reveals that for the year 2012, 2013 and 2014 in none of the stage of Backward Elimination, Non-Audit Service is significant. However, for year 2015 and 2016 in all stages, Non-Audit service is significantly influencing the proxy of Auditor’s Independence i.e. Audit Opinion. The results may be interpreted in way that before the implementation of Companies Act 2013 there were no disclosure requirement for Non-Audit service fee in Income Statement. But, with the implementation of Companies Act 2013, in compliance with “Paragraph 5 Additional information of general instructions for preparation of statement of profit and loss of PART – II of Schedule III of the companies Act 2013” a company shall disclose by way of notes additional information regarding aggregate expenditure on the following items:

Payment to the auditor as
(a) Auditor
(b) For taxation matters
(c) For company law matters
(d) For management services
(e) For other services
(f) For reimbursement of expenses

Thus, any amount paid to an auditor of a company shall be disclosed by way of additional notes. In other words, it is mandatory to disclose in the P/L the
detailed information with regard to payment made to auditor whether as fees, expenses or otherwise service rendered.

Therefore, it had been concluded that because of additional disclosure requirements non-audit service aroused as a significant variable impacting audit opinion. More specifically, it can be said that because of various corporate failures around the world, auditor’s independence had been always suspected globally but in Indian context because of lack of disclosure, it didn’t aroused as significant variable impacting Auditor’s Independence. On the contrary, with implementation of Companies Act 2013 and a mandatory applicability from 1st April 2014, non-Audit service appeared as significant variable impacting Auditor’s Independence for financial statements of year ending 2014-2015 and 2015-2016.

Thus, results of overall study for 5 years leads to rejection of null hypothesis $H_0$.

6.4.1.2 Results of Multiple Regression: The multiple regression technique had been adopted to analyze the impact of Auditor’s tenure on independence of an auditor. For this study, non-audit service fee and ratio of non-audit service fee to total fee had been taken as proxy of Auditor’s Independence.

The study has been aimed to examine whether the Companies Act 2013 has made any significant impact of Auditor’s Tenure on independence of an Auditor. For this, the tenure of current auditor (of year 2016) is counted as number of years it has been in this position from year 2006-07 i.e. total 10 years were taken into consideration to find out tenure of current auditor. The resultant variable is adopted as independent variable to evaluate its impact on dependent variable non-audit service fee and ratio of non-audit service fee to total fee.

Two different studies have been done for testing null hypothesis that Companies Act 2013 has not made any significant impact of Auditor’s Tenure on Independence of an Auditor. In both studies, auditor’s tenure have been found to be significantly impacting non-audit service fee and ratio of non-audit service fee to total fee. The results can be interpreted in a way that in Companies Act 2013, it has been provided that every company, existing on or before the commencement of this act is required to comply with provisions of rotation within three years from
the date of commencement of this Act. Therefore, the financial statements analyzed i.e., of year 2016 have not followed the rotation rules because it had not been mandatory for them to rotate their auditor. Such rotation becomes mandatory from financial year starting 1st April 2017. Concluding, it can be said that though rotation requirements have been implemented in new act but being their non-mandatory follow auditor’s tenure remains a significant variable impacting Auditor’s Independence.

Thus, the results lead to rejection of null hypothesis $H_{02}$

On the basis of multiple regression results two different equations had been derived

1) \[ NAF = -6.75 + 0.25 AF + 0.15 NAF/TF - 0.000 TRNOR + 0.000 TA + 0.04 ROCE - 1.89 DB + 1.35 BIG 4 + 1.32 AC + 0.14 TEN \]

2) \[ NAF/TF = 36.29 + 0.09 AGE - 0.67 AF + 1.68 NAF - 0.000 TA - 0.23 ROA - 0.59 CR + 0.01DE - 5.62 LS - 4.85 AC - 0.49 TEN \]

The first regression equation is having dependent variable non-audit service fees. This dependent variable is impacted by audit fee, ratio of non-audit service fee to total fee, turnover, total assets, return on capital employed, issue of debenture during the year, type of audit firm and auditor’s tenure.

Whereas, the second regression equation is having ratio of non-audit service fee to total fee as a dependent variable. Explanatory variables impacting the proxy of Auditor’s Independence are age, audit fee, non-audit service fee, total assets, return on total asset, current ratio, debt-equity ratio, loss, audit committee and auditor’s tenure.

As per both equations these independent variables are significant variables impacting Auditor’s Independence in Indian context.

For this chapter, hypothesis Acceptance and Rejection is presented as follows:
Table 6.3: Hypotheses Acceptance/Rejection of Secondary Data Analysis

<table>
<thead>
<tr>
<th>H₀₁: The Companies Act 2013 has not made any significant impact of Non-audit service fee on Auditor’s Independence</th>
<th>Accepted</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₀₂: The Companies Act 2013 has not made any significant impact of Auditor’s Tenure on Independence of an Auditor</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

6.1.5 Opinion Survey

The fifth chapter was based on opinion survey conducted for exploring general awareness about Auditor’s Independence. Survey had been carried out with a structured questionnaire having 29 statements based on three sections of Auditor’s Independence namely non-audit services banned in Companies Act 2013, impact of non-audit services on ethical behavior of an auditor, impact of long audit tenure on Auditor’s Independence. Z-test and ANOVA had been used for analyzing the responses.

6.1.5.1 Demographic Profile: Respondents have been classified on the basis of three demographic variables. The summary of 447 respondents is as follows:

a) 74% are male respondents rest are females.

b) 47(10%) respondents are in age group of 18 to 28 years, while 234(52%) respondents are in the age group of 28 to 38 years, 146 (32%) respondent are in age group of 38 to 48 years and remaining 24(06%) respondents are of 48 years & above.

c) 72 (16%) respondents are Academicians, 60 (13%) respondents are Audit Clients, 69 (15%) respondents are Banking Authorities and 57 (12%) respondents are Investiors, 87 (19%) respondents are Non-Practising C.A. 78 (17%) respondents are Practising C.A. and 34 (7%) respondents are Taxation Authorities.

6.1.5.2 Overall Opinion: For three different sections of the questionnaire, overall opinion of seven different category of respondents had been analyzed. The Z test results of overall analysis are as follows:
a) For section “Overall opinion regarding Non-Audit Services banned in Companies Act 2013” opinions in case of all 8 statements had been found to be significantly different from equally divided opinion. The coefficients of variation for all the average opinions are falling in the range of 38.42% to 43.81%. The results leads to rejection of $H_{03(a)}$.

b) For questionnaires section having statements on impact on non-audit service on ethical behavior of an Auditor, opinion in case of all 12 questions had been found to be significantly different from equally divided opinion. The coefficients of variation for all the average opinions are falling in the range of 30.29% to 40.08%. The significant difference in overall opinions regarding influence of non-audit service on ethical behavior of an Auditor leads to rejection of $H_{03(b)}$.

c) For opinion on section containing statements for analysis of impact of long audit tenure on Auditor’s Independence, out of 9 statements of questionnaire, opinion in case of 7 questions had been found to be significantly different from equally divided opinion. The coefficients of variation for all the average opinions are falling in the range of 32.38% to 35.62%. The significant difference in overall opinions in majority of statements leads to rejection of $H_{03(c)}$.

6.1.5.3 Category-wise Opinion: The category-wise opinion of seven different category of respondents had been analyzed using ANOVA. Section wise results are as follows:

a) In Category wise opinion of respondents regarding questionnaire’s section on non-audit services banned in Companies Act 2013, out of 8 statements opinion in case of 7 statements had been found to be significantly different from equally divided opinion. The significant difference in maximum statements results leads to rejection of $H_{04(a)}$.

b) For category wise opinion of respondents regarding impact of non-audit service ethical behavior of an auditor, out of 12 statements, opinion in case of all statements had been found to be significantly different from equally
divided opinion. Thus, analysis results depicting significant difference in all statements leads to null hypothesis $H_{04(b)}$

- Results of category wise opinion of respondents regarding impact of long audit tenure on Auditor’s Independence shows that opinion in case of all 9 statements had been found to be significantly different from equally divided opinion. Thus, ANOVA results showing significant difference in all statements leads to rejection of $H_{04(c)}$.

Table 6.4: Hypotheses Acceptance/Rejection of Primary Data Analysis

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Acceptance/Rejection</th>
</tr>
</thead>
<tbody>
<tr>
<td>$H_{03(a)}$: There is no significant difference in overall opinions regarding impact of non-audit service ban on Auditor’s Independence.</td>
<td>Rejected</td>
</tr>
<tr>
<td>$H_{03(b)}$: There is no significant difference in overall opinions regarding influence of non-audit service on ethical requirement of an Auditor.</td>
<td>Rejected</td>
</tr>
<tr>
<td>$H_{03(c)}$: There is no significant difference in overall opinions regarding effect of Long Audit Tenure on Auditor’s Independence.</td>
<td>Rejected</td>
</tr>
<tr>
<td>$H_{04(a)}$: There is no significant difference in category wise opinions regarding impact of non-audit service ban on Auditor’s Independence.</td>
<td>Rejected</td>
</tr>
<tr>
<td>$H_{04(b)}$: There is no significant difference in category wise opinions regarding influence of non-audit service on ethical requirement of Auditor</td>
<td>Rejected</td>
</tr>
<tr>
<td>$H_{04(c)}$: There is no significant difference in category wise opinions regarding effect of long audit tenure on Auditor’s Independence.</td>
<td>Rejected</td>
</tr>
</tbody>
</table>