

FACTORS INFLUENCING THE INDEPENDENCE OF PUBLIC-SECTOR AUDITOR: A LITERATURE REVIEW

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Abstract: The study of public sector auditing is a big, intricate, uncharted, and underappreciated topic. As a result, scholars urge greater research on public sector audit, particularly in light of developing nations. This article reviews scholarly research on the independence of public sector auditors and the variables influencing that independence. This review of the literature is based on articles pertaining to public sector audits that were published in major publications in the 20th century. First, we go over and explicitly define what independence is. Second, we structure our analysis around the three primary factors that affect the independence of public-sector auditors: (a) political manifestos; (b) auditor tenure; and (c) relationships with auditees. This study examines the impact of each threat on the independence of the public-sector auditors. We also come to the conclusion that the evidence and recent developments allow for further research on the independence of public sector auditors.

Keywords: Auditing, Public sector, Auditor, Independence, Supreme Audit Institution

1. INTRODUCTION

Public sector auditing has a lengthy history, and since the 1980s, public sector auditing organisations have sprung up all over the world. The growth of public sector audit as part of modern public management reform in nations like Australia, New Zealand, Canada, the United States, the United Kingdom, the Netherlands, and Nordic countries are only a few of the concerns that have been associated with the origin (Parker, Jacobs, & Schmitz, 2019). The Supreme Audit Institution (SAI) in each nation performs public sector audits as part of its principal responsibility to improve government accountability through

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auditing and other assurance services (Salih1 & Hla, 2015). SAI is crucial in making sure that there is a continuous chain of responsibility between Congress and the government, with SAI's auditor being the person who carries out the audit activity inside SAI (Funnell, 1994). Increasing government accountability and transparency are two benefits of public sector auditing, according to Clark, De Martinis, and Krambia-Kapardis (2007). Additionally, public sector audit quality has the potential to be extremely important for the long-term growth of democracies and social welfare (Gustavson & Sundström, 2016; Johnsen, 2019). However, real-world experience demonstrates that auditing is not very helpful in the ethical fight against corruption (Bringselius & Management, 2018; Jeppesen, 2019).

The underlying principle of independence in audit, which Supreme Audit Institutions generally acknowledge as a crucial prerequisite of public sector audit, has been stated in a statement by the International Organization of Supreme Audit Institutions (INTOSAI, 1998). The emphasis on independence signalled a potential academic investigation. Regardless of the economic sector in which the examined firm operates, independence is currently considered to be vital to modern auditing processes (Wanna, 2006). There isn't much evidence in the literature to support the independence of public sector auditors or their social standing (Smyth & Whitfield, 2017). The common consensus is that state auditors are impartial to politics and policy and are required by law and custom to concentrate on financial and performance auditing rather than policy goals (Funnell, 2011). As Normanton and Normanton (1966) contend, state auditors are possibly the strongest line of defence for citizens against abuses involving money taken from their pockets. This concept of the independence of the public-sector auditor is strongly ingrained in the study literature. Research reveals that while there have been many discussions on the independence of private sector auditors over the past three decades, there has been very little research on diminishing independence in the public sector (Hay & Corderly, 2018).

As a result, more empirical data are needed to supplement the scant amount of study that has been done on the factors impacting public-sector auditor independence in different countries. A study that summarises the factors influencing the independence of public sector auditors does not exist, according to the author's research. On the other hand, research simply halted after taking into account each component separately in the unique national context as it related to public sector auditor independence. In this study, the historical development of public sector auditing as well as the independence of those auditors are investigated.

2. RESEARCH METHODS

The study of auditors' independence in the public sector and public sector audit in modern society are still relevant to this conceptual study, which draws on literature research techniques and sources from reliable journals and papers.

3. DISCUSSIONS

3.1. Public sector auditors' independence

"Independence is a tough idea to understand," claims Mautz (1961). Independence is a social construct wherein claims regarding auditors' independence are socially assured, according to Gendron et al. (2001). Furthermore, because it is a manifestation of their professional integrity, auditors' independence is a tough idea to comprehend (Carey & Doherty, 1966). Therefore, independence is a concept for which there is no agreed-upon definition and which the auditor determines to be appropriate in order to preserve the value of auditing and objectivity. The independence of auditors is derived from a number of sources, including business and auditing law, professional codes, auditing procedures, citizenship education, and knowledge of how democracies operate. Public-sector auditors, often known as government auditors, are in charge of preventing the misuse and abuse of public resources, taxpayer money, and government funds (Normanton & Normanton, 1966). The independence of public-sector auditors is crucial because auditors must be able to critically evaluate government operations and provide objective reports to the public (Normanton & Normanton, 1966). Public-sector auditors are required to have a high level of objectivity and honesty due to the significance of audit work and reporting since they have a significant responsibility to hold the government accountable for the management of resources and public finances. As a result, there are very strict criteria for the independence of public finance. There are aspects of auditor independence that are consistent between the public and private sectors; for example, both fields of audit accept concepts like independence of thinking and independence of form. (GAO, 2011). According to one argument, the auditor's mindset and attitude are what should be inculcated in the auditor's mind in order to foster independence (Mednick, 1990). The auditor's personality is the starting point for encouraging the auditor to be impartial and objective. Second, the auditor's independence has two components: independence from the practitioner themselves and independence from the profession as a whole. These two components are collectively referred to as independence of thought

and independence of form (Mautz, 1961), and they are widely accepted in academic studies and contemporary auditing literature. In accordance with this, “ideological independence” is the ability of auditors to perform their work with honesty, objectivity, and professional scepticism; “formal independence” is the avoidance of any circumstance that could cause a third party to believe that an auditor has lost their professional scepticism, objectivity, and integrity (Porter, Simon, & Hatherly, 2014). Additionally, there are many points of view about the organisational and operational aspects of auditor independence as well as human and organisational issues (Power, 1997). (Flint, 1988). Organizational structures have a role in the appointment of auditors and provide them with a clear mandate to perform their job (Flint, 1988). The principle of independence in public sector auditing has a point to note: SAI and auditors must not be dependent on the executive authority and must be independent from the executive authority (Normanton & Normanton, 1966), because the auditors’ responsibility is to audit the accounting of public resources and finances managed and operated by units of the executive branch. The fundamental concerns that must be addressed to uphold the independence of the public-sector auditor include those pertaining to the rights and obligations outlined in the constitution, the law governing the appointment, dismissal, and access to information of the public-sector auditor, as well as issues with independently issuing audit reports and having sufficient supplies to carry out the audit duties (INTOSAI, 2007).

The independence of the auditors is essential for both the public and private sectors to ensure the validity and high calibre of the audits (Francis, 2004). Tepalagul and Lin (2015) claim that one predictor of audit quality is the independence of the auditors, which has an impact on audit results. Lack of independence among auditors has led to inadequate management of financial issues and poor audit quality (Chen et al., 2013). Lack of independence not only damages the profession’s reputation but also results in reports that contain anomalies and have unpredictably negative financial and non-financial effects. Furthermore, Power (1997) contends that an auditor’s independence is more crucial than their professional competency. Furthermore, research on the independence of public-sector auditors is primarily conducted in Western nations with advanced democracies. As a result, the independence of public-sector auditors has always been a source of debate among researchers and has not been extensively researched in many developing nations. Independence is among the most often addressed topics in audit literature. Because it increases the confidence of those who will be using the audit results, independence

is regarded as a cornerstone of auditing practise (Mautz, 1961). (Carey & Doherty, 1966). According to Flint (1988), independence plays a crucial role in enhancing the value of audit implementation and results; without it, the audit job is essentially worthless (Power, 1997). As a result, one of the key topics in academic research on auditing is the examination of auditor independence. Finding definitions of independence, understanding the value of audit independence, and understanding the variables influencing auditor independence are all components of the independence research process

3.2. Factors influencing the independence of public sector auditor

3.2.1. Political manifestos

In order for connected parties to use audit findings as a tool for decision-making, public-sector auditors must be independent in order for them to be objective and courageous when evaluating public management and issuing reports to the public (Normanton & Normanton, 1966). Due to the increased public interest in public services, the function of the public sector auditor therefore demands greater independence in terms of social relevance (Flint, 1988). One of the basic principles is embodied in the Lima Declaration (adopted at the 9th INTOSAI Congress, 1977, in Lima, Peru): *“The independence of the Supreme Audit Institution could not be separated from employees’ independence.”* *“Employees”* are understood here as *“those who must make decisions on behalf of the Supreme Audit Institution and are responsible for third parties; members of the decision-making body; or the head of the Supreme Audit Institution”* (INTOSAI, 1977).

Moreover, academic studies demonstrate a strong correlation between auditor independence and SAI independence. For instance, Funnell (1994) in the UK discovered that the independence of public-sector auditors is practically impossible since SAI is influenced by the executive’s control over the expenditure budget. An auditor in the public sector must therefore adhere to governmental interests. Similar to this, SAI China’s research by Xiao et al. (2016) found that depending on the CEO results in a less effective SAI operation organisation and does not increase public sector expenditure. SAI must therefore have enough financial and human resources, and the executive body cannot restrict supplies (INTOSAI, 2007). However, since SAI receives funding for its operating budget from the state budget, a lack of spending funds seriously impairs the organization’s ability to carry out its duties (Fiedler, 2004). As a result, SAI can propose its own budget while also including the

executive and legislative branches in the funding approval process. According to research by Normanton and Normanton (1966), public-sector auditors have the legal right to unrestricted access to any papers, information, data, or other official information sources of the audited business since doing so would render their task ineffective.

Additionally, other studies have identified a number of elements that affect the independence of public-sector auditors, such as procedures for management oversight, reporting requirements, and compliance, as well as shifting political agendas (Hay & Cordery, 2018; Johnsen, 2019). Most studies on how political leadership influences public-sector auditors' independence have been conducted in industrialised democracies, including Germany, Italy, Australia, Canada, Denmark, the United States, and Canada (Skaerbk, 2009; Radcliffe, 2011; Radcliffe & Interest, 2012; Funnell, 2015). There has been relatively little research on how political leadership affects public-sector auditors' independence in developing nations. The most common is Sumiyana et al. (2021) study of Indonesia, which uses Gramsci's theory of hegemony to test political leadership and political ideology that influence the independence of public-sector auditors in Indonesia through ruling class psychology, imperium, sphere of influence, and ideology. It was discovered through document analysis and in-depth interviews with SAI Indonesia's workers, managers, and professional investigators that political leadership and ideology had an impact on auditors' impressions. Contrary to the widely held belief in developed democracies that the legislature guarantees the independence of public-sector auditors, the findings of this study argue that active political leadership intervention reduces the independence of public-sector auditors and results in a decline in audit quality. Even though SAIs are created by the legislature and run independently, the findings of the study in Indonesia concur with those of a study by Isaksson and Bigsten (2012) conducted in developing nations where SAIs do not. The paper also makes the case that the influence of the dominant political institution, which compels public sector auditors to follow political policies, causes the independence of public sector auditors to confront numerous pressures, challenges, and declines. In the end, this research helped us better understand how political rights, aided by coercion, ruling-class psychology, and spheres of influence, significantly diminish the constitutive role of auditors, raising public concerns about the effectiveness and efficiency of the public sector as well as value for money. Additionally, there isn't much evidence in the study literature to support the social standing and independence of public auditors (Smyth & Whitfield, 2017). Recent investigations have

questioned the degree to which public-sector auditors' audit results and audit judgements are truly free from political comments and objectives (Funnell, 2011; Radcliffe, 2011). According to Radcliffe (2011), *"it is not good to think that public-sector auditors have been independent of politics and policy."* Instead, auditors work within discrete frameworks of what can be done in more nuanced and practical ways. Funnell's (2011) study in favour of public-sector auditors' independence emphasized that *"The independence of public-sector auditors mean to ensure that they will be able to protect and enhance the public interest, is the means by which the legislature as a public representative is provided with means to hold the head accountable"*. According to research findings by Funnell (2015), the Australian Government has acknowledged SAI's reputation and work in auditing activities as a powerful instrument for bolstering political institutions in the political backdrop following a debate. According to research by English (2007) based on case study data from audits of Australian public-private partnerships, system-based pre-contracting audits are more likely to be able to legitimise political activities by the government than to ensure independent monitoring.

The findings of a study support the claim that SAI should embrace practises used by private sector auditors, such as requiring auditors to audit a variety of clients on a regular basis. This is a result of performance auditing, which mandates that auditors collaborate closely with the government to provide recommendations for enhancing the efficacy of government institutions and programmes (Gendron et al., 2001). According to Skaerbaek (2009), the ability of public-sector auditors will take on advising role to the process implementation and improve the manner of management in public management programmes and contents of the government to efficiently achieve the goals. As a result, research indicates that involving public-sector auditors in enhancing government operations has the danger of weakening their independence because they will be involved in those operations and offer advice and consultation. To fulfil their legal obligations, SAIs must execute one of three types of audits, including performance audits, on the public sector in each nation. As a result, the indicated existence can be the only one where the mandated rotation policy for public-sector auditors to audit various entities is applied.

Additionally, Sumiyana et al. (2021) developed the political leadership scale based on the Gramsci framework and the Indonesian public sector audit process, which was researched in the context of the influence of political hegemony and ideology on auditors' independence at SAI Indonesia. The

author inherited the scale of political leadership from the research of Sumiyana et al. (2020). Political leadership is thus discussed from four angles, including: (i) supreme power (imperium or supreme power), which is the promotion of political ideas by political states or units, regions, or localities governed by state policies, regulations, and procedures; (ii) ruling-class psychology, which is the stratification and classification of financial capital into social groups based on education, personal power, wealth, and social relationships; and (iii) sphere of influence, which is the establishment of the influence of politics on various sectors of society.

3.2.2. Auditor tenure

The number of consecutive years an auditor audits an auditee is known as the auditor's tenure (Ghosh & Moon, 2005; Lowensohn et al., 2007; Ellis & Booker, 2011). The author used prior research papers on audit in the private sector to analyse the relationship between auditor tenure and independence because academic research on auditor tenure in the public sector has been limited. The author believes that this reasoning is appropriate because scholars have all agreed on the definition of the term "tenure of an auditor." There are two competing perspectives on the length of an auditor's stay in the private sector during his studies. According to the first point of view, an auditor may make biased decisions for an auditee because they are performing so many audits for a client. For instance, research by Donald Deis and Gary (1992) indicates that the longer the auditor's tenure, the less independent the auditor is. Longer audit tenure, according to the researchers, has a negative impact on auditor independence since auditors are more likely to adopt accrual accounting and other accounting laws. Donald Deis and Gary (1992) suggested, using a quantitative method, that the deterioration in audit quality is related to opportunistic behaviour or complacency. According to studies, long-term auditors are more likely to be negligent, omit an auditee, or make poor decisions when preparing financial accounts. According to academics, financial statements produced by short-term auditors (two or three years) are of lesser quality. Reynolds, Johnson, and Khurana (2002) As a method to reduce the well-known risk that could impair professional judgement and auditor scepticism, some nations have a requirement of auditor tenure to protect auditor independence (Fearnley, Beattie, & Brandt, 2005). According to the second argument, there is little evidence that the longer auditor term reduces auditor independence (Carcello et al., 2004; Knechel 2007; Myers, Myers, & Omer, 2003). According to the study by Myers et al. (2003), the longer the auditor's

employment, the more control the auditor is given over bad management choices, which lowers the probability of financial statement inaccuracies. Despite research suggesting that the auditor tenure may not negatively impact the independence of the auditor, safety measures are nonetheless performed. As a result, it is still believed that the longer auditor tenure presents a threat of familiarity for the auditor.

Studies use a dummy variable to calculate a quarter of the tenure cycle (two years, four years, and six years) in order to measure auditor tenure. Other studies quantify auditor tenure in many nations, including the United States and several nations of the European Union, by establishing a minimum and maximum period of time (Vanstraelen, 2000). As a result, some studies have used the aforementioned clause as a guide to calculate the least amount of time after which the entity and the auditor can end their connection (Carcello et al., 2004; Gunny, Krishnan, & Zhang, 2007; Knechel et al., 2007). According to Fitzgerald et al. (2012)'s study, auditor tenure is divided into three categories: short-term (1 to 2 years), medium-term (3 to 5 years), and long-term (over 6 years).

3.2.3. The relationship with auditee

Studies primarily on private sector audits that examine the effects of relationships with auditees. Numerous research findings indicate that the risk of having a high degree of familiarity with the auditee has an adverse effect and reduces auditor independence (Quick et al., 2015). According to a typical study by Lennox (2005), top staff of the auditee who used to be audit directors or members of the audit team are vulnerable to intimidation threats or threats from familiarity with their work, impairing auditor independence. According to certain interpretations of findings from related studies, this association has no bearing on the auditors' impartiality (Mautz, 1961). The majority of auditees in the public sector are government entities, executive branch agencies, and state-owned businesses. As a result, recent studies have concentrated on exploring the problems related to the independence of the executive body from the public sector auditor. Studies in the 1990s tended to concentrate on the practical application of such independence (Barrett, 1996; Funnell, 1994; Parker & Guthrie, 1993), possibly as a result of Australia's subpar governance, particularly in the 1980s. First, many scholars are curious about the relationship between the executive body and the head of SAI, also known as the senior auditors of SAI and usually known as the Auditor General. For instance, through investigations by several parliamentary committees and

even the Royal Commission of Australia, numerous recommendations to improve the authority and independence of the Australian Auditor General have been made at extremely high levels (Kennedy, Wilson, & Brinsden, 1992). Under new and comprehensive legislation, these requests have been addressed in regional Australian jurisdictions. For academics interested in questions of governmental responsibility, the comparison of various supporting regulatory systems offers a wealth of data. To illustrate the extent to which legislation provides the foundation needed to maintain public sector accountability and support public sector accountability and support prerequisites related to independence, mandate, and funding, De Martinis and Clark (2003) compare the powers authorised by Australia Auditor General.

Additionally, Coghill's (2004) study on the relationship between the Auditor General and the Australian Capital Territory Legislative Assembly and the Parliament of the Commonwealth of Australia found that SAI Australia operates in a governance environment where there are links, interdependencies, and interactions seriously affecting the independence of the public audit, which is one of the primary factors affecting the audit results. In order to strengthen the independence of six congressionally accountable public officials, the Standard on Public Sector Commissioners (2006) outlines and describes the current legislative instruments. Australia, together with the Auditor General. The regulatory frameworks for the Auditor General in Australia and New Zealand were compared in research by Pearson (2009) and Robertson (2009, 2013), and it was discovered that more could be done to safeguard public-sector independence and the Auditor General from improper influence by the executive branch.

The long-term contribution of the Auditor General to ensuring transparent and accountable government as well as the influence of individuals, groups, or politicians on the Auditor General According to Van Zyl, Ramkumar, and De Renzio (2009), who examined the findings of a survey on the transparency of government budgets in 85 countries and discovered that 80% of them did not provide enough information to hold government accountable and 50% provided so little information that they could conceal information that was not disseminated, leading to waste and corrupt spending. In 1997, Victorian Prime Minister Jeff Kennett attempted to dismantle and privatise the State Audit Office, but his efforts were unsuccessful. The Kennett government was defeated as a result of this policy choice, which was a key topic in the Victorian election in September 1999 (English, 2003; Funnell, 1996, 1997; Wanna, 2006; Good, 2007). Discussions about the significance of the relationship

of independence between the Auditor General, the State Auditor General, and Parliament in governance systems were sparked by the conflicts of the late 20th century between the independence of public sector audits and the accountability of the executive government as a result of the NPM reform (Parker & Guthrie, 1993; Coghill, 2004).

Consistently, the auditors' understanding of auditees (people or organisations) is in connection to the audited entity (Herda & Lavelle, 2012). Using the organisational identification scale (Mael & Ashforth, 1992; Wan-Higgins et al., 1998) and career orientation to measure occupational identity, research results from (Bamber & Iyer, 2007) on the auditor's relationship with the auditee that threatens the auditors' independence were used to measure the relationship with the auditee. Many following audit investigations (Stefaniak et al., 2012; Bauer, 2015; Svanberg & hman, 2015) adopt the measurement scale proposed by Bamber and Iyer (2007) to test in various country situations.

4. CONCLUSION, DIRECTION FOR FUTURE RESEARCH AND LIMITATIONS

4.1. Conclusion

In light of the aforementioned research investigations, the authors hold that political leadership, the tenure of the auditor, and the relationship with the auditee are the three key criteria that have the greatest impact on auditor independence. These elements are also part of the problems outlined by ISSAI in its eight basic principles of independence for public sector audit organisations, which have a similar understanding of the independence of public-sector auditors (INTOSAI, 2007). The legal environment (constitutional and statutory); the appointment and term of office of auditors; broad implementation tasks; unrestricted access to information; the right and obligation to report on the work of the auditor; the freedom to decide the content and timing of the audit report; and the existence of financial autonomy and assurance mechanisms are among these eight fundamental principles (INTOSAI, 2007). This study also describes and suggests scales for three variables that affect auditor independence. The proposed conceptual framework for further research aims to influence the three key factors influencing the independence of public sector auditors using a single research model.

4.2. Direction for future research

There hasn't been a quantitative analysis of the factors affecting the independence of public-sector auditors yet. This paper outlines the factors that influence the

independence of auditors and offers scales for three of them. Therefore, in this situation, a quantitative survey is necessary. Future research must examine other factors that influence the independence of public sector auditors. It is also necessary to conduct research on how audit quality, professional scepticism, and other factors are affected by the independence of public sector auditors.

4.3. Limitations

The majority of the research that was evaluated was done in industrialised democracies and focused on one country. The independence of public sector auditors in developing countries has been discussed in a couple of the publications we've read. In the meanwhile, there are three common organisational patterns for SAIs around the globe: independent from the legislature and executive body; belonging to the legislative body; and belonging to the executive body. As a result, the findings of the literature review on the factors influencing the independence of public sector auditors cannot be applied generally.

The qualitative research method is mostly the source of the studies' limitations. Quantitative research techniques are not widely used in articles. As a result, the degree to which each element affects the independence of public sector auditors has not been evaluated. In addition, the majority of the research we analysed had a small interview sample. The majority of studies looked at how public-sector auditors perceived certain things. There haven't been many studies that looked at how auditors' feelings might be perceived.

Finally, because this review was not systematic and was restricted to a single database, it is possible that some pertinent studies were left out.

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Conflict of Interest

There is no conflict of interest involved in the publication of this paper.

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