AUDITORS' CONTENTIONS VERSUS PUBLIC PERCEPTIONS IN INDIA

Dr Sunil Kumari*

Dr Sanjay Nanadal**

Abstract: *Being the matter of professional judgment of auditor's report, audit practices have been a debatable issue in accounting and auditing world and efforts have been made to establish the uniformity in determination true and fait view of company affairs but being it subjective in nature, there will always be a possibility of diversity in viewpoints of auditors and public perceptions. Present study aims at finding the same i.e. whether different auditors and public particularly small investors have the similar considerations over view of truth and fairness of company's financial statements. Study is based on primary data collected through questionnaire and data has been analyzed using descriptive statistics i.e. mean and standard deviation, further hypotheses have been tested by t-test to generalize and validate the conclusion of study. Study reveals that there is significant difference between auditors' opinion and its interpretation by public.*

Key Words: *Materiality, Public, Auditor, Companies*

*Assistant Professor at GGSIP University, Delhi, India

**Assistant Professor at IMSAR, MDU Rohtak, India

INTRODUCTION

Commitment of corporate frauds with huge amount recent example is Satyam scandal, has become the regular practice in capital market that has crashed the public faith especially small investors who get majorly affected thereby. Being the accounts of company audited by qualified auditor with clean & unqualified report, why such frauds occur, it again questions on audit practices. There are two things; either auditor's clean report doesn't indicate the true position of company's affairs or public interprets it in wrong manner. In present scenario, the scope of auditing has been changed as earlier it was restricted to verification of information shown in books with source of origins wholly but now it's scope has been extended from financial audit to operational, management even environment audit has been made an auditor's responsibility, consequently all of this has made the auditing subjective in nature as well as sampling based where so many things will remain the matter of auditors' professional judgment. So audit report doesn't confirm the truth and fairness of all company's affairs. Experts say that second one is true i.e. public misinterprets the audit report taking unqualified report means true and fair view of company in objective manner and their such innocence & unawareness is being hounded by the inside traders. This issue initiated the researcher to make the study on this topic to know auditor's contentions and public perceptions. Further study also aims at finding the difference between both and significance thereof.

AUDITOR'S ROLE AND EXPECTATIONS GAP

Recurring of corporate frauds have compelled the forces to strengthen the corporate governance by stipulating increased reporting requirements and imposing stiff penalties for non-compliance and to increase the auditors' accountability to ensure such compliance. Auditor's role is objective oversight of the accounting of the organization. But the auditing profession states according to its professional standards that:

- A company's management, as prepares of financial statements, is primarily responsible for the content of financial statements.
- Auditors express only an opinion on the fairness of financial statements – they add credibility to the financial reporting process, but not absolute assurance;
- Auditors employ sampling techniques to test selected transactions- verifying all transactions is not economically feasible; and

- An audit provides only “reasonable” assurance that unintentional errors and/ or irregularities due to fraud are detected.

Regarding the second point- auditors expressing an opinion on the fairness of the financial statements- the term “fairness” is used (as opposed to “accuracy”) because of the estimates involved in financial statements and disclosures. Examples of such estimates include the allowance for uncollectable accounts, estimated warranty expenses, loan loss reserves, and contingent liabilities. But many members of public believe that auditors in effect “guarantee” the accuracy of financial statements when an unqualified audit opinion is expressed; they contend that auditors should accept prime responsibility for the accuracy of the financial statements, and for the disastrous consequences that follow when significant inaccuracies or misstatements go to undetected. Some people naively believe that auditors verify 100% of all amounts appearing in financial statements, while others think that the primary purpose of an audit is to detect fraud (ABREMA 2002, Lee 1994). So there is a expectations gap that can be defined as a well documented phenomenon in auditing, and the difference (gap) between auditors’ belief as to their required standards of performance when auditing an organization and the public expectations of auditors’ performance (ABREMA 2002;).Following table1 shows various aspects where gap between auditors’ contentions and public perceptions exit.

Table1: Showing the Auditors’ Contentions and Public Perceptions

Auditor’s Contentions	Public Perceptions
A company’s management, as prepares of financial statements, is primarily responsible for the content of financial statements.	Auditors should accept prime responsibility for the accuracy of financial statements.
Auditors express only an opinion on the fairness of financial statements, adding credibility to the financial reporting process, but not absolute assurance.	The primary purpose of an audit is to detect fraud.
Auditors employ sampling techniques to test selected transactions- verifying all transactions is not economically feasible.	Auditors verify 100% of all amounts appearing in financial statements.
An audit provides only “reasonable” assurance that unintentional errors and/or irregularities due to fraud are detected.	Auditors in effect “guarantee” the accuracy of the financial statements when unqualified (clean) audit opinion is expressed.

OBJECTIVES OF THE STUDY

- To know the reasons of being small investors hounded in corporate.
- To find the difference (if any) auditors' contentions and public perceptions regarding auditing practices.

RESEARCH METHODOLOGY

The purpose of research was to gather opinions to meet the stated objectives and evaluate them in order to draw some concrete conclusions. Being the study exploratory in nature and primary data based, a questionnaire was designed and pretested on 25 people to enhance its validity & reliability. Finally well structured and adjusted questionnaire was circulated to 50 people out of those 25 auditors in private sector and rest 25 small investors to represent the common public and received back the filled up questionnaires 23 from auditors and 22 from public. Further interviews and discussions were also made the auditors to know some subjective aspects of materiality. Both statistics descriptive as well as deductive were used to analyze the data. Accumulated results were tested by SPSS using t-test supposing distribution is normal. T-values were taken significant at 1% level and 5% as well. Hypotheses was accepted or rejected on the basis of significance of t-values.

HYPOTHESES

Following hypotheses have been set regarding various aspects of auditing

- **Main Hypothesis**

H0: There is no significant difference between auditors' contentions and public perceptions.

- **Sub- Hypotheses**

H1: A company's management, as prepares of financial statements, is primarily responsible for the content of financial statements.

H2: Auditors express only an opinion on the fairness of financial statements, adding credibility to the financial reporting process, but not absolute assurance.

H3: Auditors employ sampling techniques to test selected transactions- verifying all transactions is not economically feasible.

H4: An audit provides only "reasonable" assurance that unintentional errors and/or irregularities due to fraud are detected**.**

RESULTS AND DISCUSSIONS

Study reveals that opinion on true and fairness of company's financial statements is a matter of auditor's professional judgment which depends upon the materiality viewpoint of auditor, consequently audit report on fairness of financial statements may also differ from public perceptions. As researcher identified the four areas i.e. who is primary responsible for the content of financial statements, view on fairness of financial statements, method of verification of accounts, and auditors' assurance regarding company affairs to know the viewpoints of auditors as well as public/ small investors on the stated areas. Gathered scores were averaged as mean values and variation with in variable in terms of standard deviation, as stated in table II, for the purpose of computation of t-values to know the significance of difference between auditors' contentions and public perceptions on various aspects of auditing.

Table II: Mean values, Standard Deviation and t-values of various aspects of Auditing

	Auditing Aspects	Auditors' Contentions		Public Perceptions		t- value
		Mean	S.D.	Mean	SD	
1.	Primarily responsibility for the content of financial statements	13.01	2.10	15.79	1.96	4.15
2.	Fairness of financial statements	54.78	5.37	66.03	6.23	17.12
3.	Verification: sampling/ Consensus	15.48	4.12	28.35	3.69	13.54
4.	Assurance-Reasonable/ Gurantee	95.89	2.75	98.25	2.09	6.89

Present study stated that professional judgments regarding truth and fairness of financial results of corporate, doesn't coincide with public's viewpoint. All t-values stated in table are significant at 1% level as well as 5% level that confirms that auditors' contentions and public opinions regarding auditing purpose vary with each other in significant manner. Further all set hypotheses have been proved true. Furthermore, highest t-value i.e. 17.12 went to fairness of financial statements that shows the strongest disagreement between auditors and public viewpoints that means public takes the meaning of fairness as 100% accuracy in accounts whereas auditor says that being the audit in subjective in nature and a matter of professional judgment, he adds the credibility to the financial reporting practices not the absolute assurance. As per second highest t- value (13.54), the biggest confusion between auditor and public, is about verification technique. Significance of this value clarifies that auditor conducts the verification of accounts on sampling based whereas public thinks that it is being done by auditor on consensus based. So all set hypotheses have been proved true.

CONCLUSIONS

The role of auditors has become muddled around the world. Experts that include law and accounting professors are misleading the public on the role of external auditors. This confusion arises because legal basis for regulatory audit is quite different from legal role of statutory auditor. Public think that audited accounts purport to inform secondary markets on the economic value of a company for the purpose of buying and selling the shares but audit is a governance role not an economic one. While the "conduct of company affairs" may be economic, this role is subsumed into primary role of holding all the directors to account. Present study reveals that auditor conducts the audit as per professional standards and his clean report provides the reasonable assurance of being the fairness in financial affairs of the company and free from frauds which is based on sampling verification and detection of frauds on susceptibility basis, whereas public interprets the auditors' report in different manner, it takes the clean report as financial statements are 100% correct and free from frauds being based on consensus verification, that's not true and because of that they invest on corporate and being situation different, small investors get hounded in such crashes like Satyam, Harshad Mehta etc.

LIMITATIONS

1. Being the auditing, one branch of social sciences, all limitations of test and study the human behavior will attribute to auditors' contentions as well as public perceptions.
2. Auditors were selected only qualified Chartered accountants certified by ICAI engaged in conducting the statutory financial audit.
3. Inherent limitations of data collection through questionnaire were remained here too.

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ABOUT AUTHORS:

Dr. Sunil Kumari is M Com, M Phil, UGC NET Qualified and Doctorate in Finance as well as CFA with a wide experience of corporate and teaching. Furthermore she always puts sincere efforts in research oriented activities like seminar, conferences and publication in Journals as she has won many awards of Best Presenter in your ITS Ghaziabad as well as Noida and other institutes.

Dr Sanjay Nandal is an Assistant Professor at main campus of the University. He has contributed in many journals, conferences & seminars national and international level. He has also organized so many seminars, conferences and workshops at IMSAR. Since a long time he has also been associated with academia world by giving his concrete contribution in many kinds and winning various awards too.