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## Factors Affecting Audit Professional Ethics - Approach from the Perception of Auditors in Vietnam

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### Abstract

Auditor independence is one of the most important attributes of audit professional ethics. This article delivers a full insight into the perception of auditors about independence in the auditing activities in Vietnam. The article approaches from the auditor's perception in the actual working environment. The article uses a mixed approach based on the experimental methodology. The article uses the archival research method and group discussions method to analyze and assess the research problems and verify by experimental data. The article takes the group discussions with experts and surveys 300 directors, auditors, auditor assistants who are working in 70 auditing firms. The results show that perception of independence is affected by moral awareness, working environment, and professional Association. Factors affecting auditors' independence from moral awareness of auditor include perception of utilitarianism, perception of deontology; perception of egoism. Factors affecting auditor's independence from working environment: business philosophy, management practices. Factors relating to the professional association as orientation, supervision, risk of audit practice. In particular, factors relating to the risk of audit practice do not promote the preservation of auditor independence due to the low litigation risks in the Vietnamese auditing environment while the remaining factors motivate auditors to increase their independence. The article implies that the auditors, the audit firms, and the Association of Certified Public Accountants should possess appropriate orientations and policies to raise the perception of auditor independence. Thereby, auditors will improve their attitude and behavior to ensure independence.

**Keywords:** Auditor independence, Moral awareness, Audit firm, Audit process, Professional ethics, Perception of auditors.

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**Ethical:** This study follows all ethical practices during writing.

### 1. Introduction

Auditor independence is one of the most important attributes of audit professional ethics. During the process of audit performance, the auditors need to maintain an objective view, honesty, and professional skepticism (independence in mind) and provide safeguard measures against declining independence for the situations that may jeopardize it (independence in

appearance) [1]. Furthermore, the auditor must have a righteous, unbiased viewpoint in the process of performing audit, analyzing the results, approving the audit report [2, 3] as well as the ability to withstand the pressure from management influences so that the integrity is not compromised [4, 5].

Recently, there have been many studies devoted to the issue of auditor independence from a variety of perspectives. Normally, studies follow one of the four approaches: economic approach, behavioral approach, risk approach, and model approach. Studies that conduct (i) an economic approach based on an auditor-client relationship via the service contract between the audited firm and the audit firm. Thence, the auditors may depend on the client to generate economic benefits through the fees charged for the audit service and the fees that are not related to the audit services [6-9]. (ii) Behavioral research assumes that both auditor and client are closely related and interacting with each other while performing the audit services [10-12]. This problem leads to many situations that affect the auditor independence such as selection audit firms, appointment of the auditors, audit tenure, ability of the auditors to protect their clients. Additionally, many studies approach (iii) the risk of lost independence from motivation causing auditors to violate ethical standards and principles in pursuing opportunistic situations in which professional judgment becomes biased and lacks integrity [13-16]. Finally, recent studies use (iv) model approach to investigate auditor independence which is regulated and guided by standards on auditing and professional ethics issued by IFAC [1]. This approach originates from basic ethical principles that shape the independence; [17-22].

There are many studies on the topic of auditor independence. The following studies are inherited from previous studies. Therefore, the article presents some representative or recently published studies. From the analysis of the studies in line with the four approaches, the article found that there has been a research gap in the issue of auditor independence based on the approach to auditor's perception. Individual perception influences a person's attitude, thereby also influences his or her own behavior [23]. Consequently, the auditor's perception of independence is the most important stage for his or her to carry out a high-quality audit through maintaining independence. Since then, the article conducted this study based on the auditor's ethical perception to achieve the following objectives (O1): to identify the factors affecting the auditor independence due to their moral awareness and (O2) to assess the degree of impact of those factors on the auditor independence in the actual working environment.

## **2. Research Methodology**

The article uses a mixed approach based on the methodology framework of Olalere [24]. The article uses the archival research method and group discussions method to analyze and assess the research problems and verified by experimental data. Our research subject is the independence of auditors working in Vietnamese audit firms. The article reviews previous studies to identify the factors affecting auditor independence that are consistent with auditor's perception in the working environment in Vietnam. After that, the article uses the method of expert group discussions to reaffirm the factors identified at the preliminary stage. The article selected 11 experts, who are directors and auditors of audit firms to participate in our expert group discussions. Due to the interaction and the level of expertise of the experts, the value of answers is increased, and many valuable new ideas are formed. Since the discussion outline is developed within the issue of auditor independence as the research objective, the article expects the results of expert group discussions are useful to test the new ideas, to (re)define the concepts of auditor independence. Meanwhile, the expert group discussions helped us develop hypotheses and design questionnaires to survey; confirm the factors; and build the research model. The identified factors can correlate with each other in addition to the impact on auditor independence because they originate from auditor's ethical perception and are affected by the work environment. Therefore, the article uses the structural regression model (PLS SEM) to measure the impact of these factors on auditor independence. The estimation results are to be determined after testing the reliability of data and the suitability of the research model.

## **3. Literature Review**

In consistency with the research objectives, the article has carefully reviewed the case studies of independent auditors in line with the research topic and following the research approaches to see the current overall picture on the perception of the auditors about their independence.

### *3.1. Auditors' Perception of Deontology, Egoism and Utilitarianism*

Considering from an ethical perspective, auditor independence includes the auditor's behavioral range from attitude to behavior during the audit process. So that the article can determine whether the auditor is really independent. The auditor's professional ethics arises from the auditor's perception and then moves to the auditor's attitude and behavior. Attitude is associated with independence in mind while behavior can manifest independence in appearance. Therefore, perception of deontology, egoism and utilitarianism will constitute auditor independence.

#### *3.1.1. Perception of Deontology*

The word "deontology" comes from the Greek words for the task ("deon") and science ("logo"). Deontology theory is a moral theory that guides and assess how people choices and do. Auditor independence, when considered from an ethical perspective, is related to the moral obligations, responsibilities regardless of the consequences of a behavior. Therefore, an action is considered ethical if it conforms to ethical principles [25]. The focus of ethics is not on the results of an action, but on

the actions itself [26, 27]. Being aware of the important role of ethics in audit work, auditors will strive to enhance their independence. Therefore, the article hypothesizes H1 as follows:

*H1: There is a positive impact of perceptions of deontology on auditor independence.*

### *3.1.2. Perception of Egoism*

Egoism theory was pioneered by Thrasymachus (c. 459-400 BC). Later, it was followed by modern thinkers like Thomas Hobbes (1588-1679) and philosopher Ayn Rand (1905-1982). These authors argued that people often use practical calculations to create themselves greatest benefit. The pursuit of personal interests is considered as leading to the interests of the society. Therefore, self-interest is a prerequisite for self-respect and respect for others.

Selfishness and pragmatism are the same because they are based on the results of the work rather than the capacity [28]. The goal of selfishness is to maximize personal gain when making any decision and carrying out any action. Thus, individual actions serve own short-term or long-term interests [28, 29]. From this point of view, the article hypothesizes that during the audit process, the auditors are clearly aware of the selfishness and show a more positive attitude and behavior in their reviews, considerations, and opinions. So, the article hypothesizes that the perceptions of selfishness have a positive effect on auditor independence.

*H2: There is a positive impact from perceptions of Egoism on auditor independence.*

### *3.1.3. Perception of Utilitarianism*

The utilitarianism theory was developed by the ancient Greek philosopher Epicurus of Samos (341-270 BC), english philosopher Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873). The utilitarian theory is considered as the basis for making ethical decisions in business [30]. This theory is one of the most popular approaches to making ethical decisions, especially those with consequences involving large groups of people. This theory instructs people to weigh the good and the bad stemming from their actions. Utilitarianism reflects the moral acceptability of an action resulting from its outcome. If the results are good, the action is considered ethical. Otherwise, it is unethical [29]. Therefore, the article hypothesizes that perceptions of utilitarianism are likely to have a positive effect on auditor independence.

*H3: There is a positive impact from the perception of utilitarianism on auditor independence.*

## *3.2. Ethical Perception of Auditors in the Audit Firms' Environment*

The auditors work full-time in the audit company with the position of employees or partners. Auditors are paid and are assigned tasks by managers of the audit companies. Although the auditors have independently commented on the presentation of the financial statements (reports), they are still governed by the work environment of the audit firms. The business philosophy and management practices will affect the auditor's perception of independence.

### *3.2.1. Business Philosophy*

Business philosophy embodies the ideals of leadership, vision, mission, orientation and goals that guide operations and create a cultural and ethical environment for business. Business philosophy also includes principles, respect, and commitment to employees. In audit firms, the business philosophy is oriented towards developing high-quality audit based on compliance with professional ethics [1]. Business philosophy not only drives the leaders' attitude and behavior, but it also guides the employees in planning and implementation of work. Thence, the article can hypothesize that:

*H4: Business philosophy raises the perception of auditor independence.*

### *3.2.2. Management Practices of Audit Firms*

Management practices refer to the simultaneous application of the principles related to planning, organizing, leading and controlling functions to effectively exploit physical, financial, human and informational resources to achieve organizational goals by applicable laws and social norms. In audit firms, the managers use the division of labor, the audit process, the review process, the quality control process to perform the auditor independence [1]. So that, they can achieve the highest quality of the audit services following the business philosophy and goals based on compliance with professional ethics. Obviously, the companies that perform good management practices will likely increase the auditor's perception of audit ethics within their work. Therefore, the article hypothesizes:

*H5: Management practices raise the perception of auditor independence.*

## *3.3. Ethical Perception of Auditors Due to Control of Professional Association*

All the auditors must pass the examinations organized by the State and Professional Association to be granted an auditor's certificate [1]. Annually, all auditors must register to practice when they meet all conditions, such as working full-time at the audit company, update sufficient knowledge of accounting and auditing, good compliance with professional ethics. All auditors are subject to supervision and inspection by the Association. Association often takes the audit quality test annually. Auditors can be sanctioned according to the extent of their violations of professional ethics. Therefore, the perception of professional ethics, especially auditor independence, is affected by the orientation and control of the Association of Certified Public Accountants (ACPA).

3.3.1. Orientation and Supervision of ACPA

ACPA conducts quality control of audit firms and auditors annually [1]. The results of control will classify whether the firms and/or auditors are qualified to perform audit works. If the given audit firm or auditor fails to meet the quality standards, they may be suspended from the practice or handled for administrative violations. Once such an incident occurs, audit firms and auditors lose their professional reputation which is the most valuable asset. Moreover, professional associations are monitoring issues and situations as they unfold that may affect the financial statements and audit reports [31]. Therefore, the supervision and control executed by the professional association may increase the auditor's perception of the auditor independence.

Hypothesis H6: Monitoring and control of ACPA increase the perception of auditor independence.

3.3.2. Risk of Auditors

During the professional audit activities, the auditors may face risks [1] related to the withdrawal and suspension of practicing certificate, administrative sanctions, or even lawsuits. Beside, auditors also meet the legal liability for a case involving an audit failure [32]. Therefore, the perception of these risks helps auditors enhance specific attitudes and behaviors that increase their independence.

H7: The risk of audit practice increases the perception of auditor independence.

4. Research Results and Discussion

4.1. Identifying Factors Affecting the Auditor Independence

Based on the previous studies, the article has successfully identified factors that affect auditor independence. The article has conducted expert group discussions with 11 people, among them are 05 directors of the audit firm, 06 auditors and 04 auditor assistants. Thence, the article identifies or even to redefine factors affecting the auditor independence that are relevant to the scope of research in Vietnam. The determinant factors that are likely to affect the auditor independence are as follows Table 1:

Table-1.

Factors affecting the auditor independence.

Perception of Deontology	Perception of professional ethics	Perception of auditor independence
Perception of Egoism		
Perception of Utilitarianism		
Business philosophy	Ethical perception from the audit company's environment	
Management practice	Ethical perception from the direction and control of professional Association	
Orientation and Supervision		
Practicing risks		

The expert group discussions have helped us in developing research hypotheses, building scales, designing questionnaires (see: Appendix 1), build the research model. The article has conducted surveys by implementing convenient sampling. The number of votes sent out is 320, the number of votes received is 320. After screening the questionnaires, excluding 20 inappropriate votes due to incomplete content, the remaining 300 suitable questionnaires were synthesized and analyzed by SPSS and AMOS software.

4.2. Data Verification

The article has surveyed a sample of 300 observations from 300 directors, auditors, auditor assistants who working at Vietnamese audit firms Table 2. Accordingly, the gender is relatively balanced, consistent with the characteristics of the audit profession. Additionally, all of them have university graduate or postgraduate degrees (university graduate: 74.3%, university postgraduate: 25.7%), meeting the statutory criteria. Especially, in term of seniority, about ¾ of them has been working and active in the profession for more than 05 years (76.3%). So, the survey sample is highly reliable and suitable for the research objectives.

Table-2.

Describe observations

Observe	Frequency	Percent
Sex	300	100
Male	164	54.7
Female	136	45.3
Seniority	300	100
Less than 5 years	71	23.7
5-10 years	128	42.7

Observe	Frequency	Percent
10-15 years	67	22.3
Over 15 years	34	11.3
Level	300	100.0
University	223	74.3
Postgraduate	77	25.7

Thereafter, the article has assessed the suitability of the estimates using the Cronbach’s Alpha coefficient evaluation. The estimates are reliable when the values of Cronbach’s Alpha values are within the range of [0.7, 1.0] and total correlation coefficient  $\geq 0.3$  [33]. From the results in Table 3, the article sees that estimates are reasonable and reliable.

**Table-3.**  
Summary of measurement.

Group of variables	Cronbach’s alpha	Variables	Corrected item-total correlation
Utilitarianism	0.745	Utilitarianism1	0.793
		Utilitarianism2	0.516
		Utilitarianism1	0.439
Deontology	0.930	Deontology1	0.923
		Deontology2	0.868
		Deontology1	0.780
Egoism	0.890	Egoism1	0.717
		Egoism2	0.863
		Egoism3	0.781
Philosophy	0.753	Philosophy1	0.600
		Philosophy2	0.663
		Philosophy3	0.490
Management	0.855	Management1	0.754
		Management2	0.655
		Management3	0.627
		Management4	0.778
Monitoring	0.731	Monitoring1	0.465
		Monitoring2	0.501
		Monitoring3	0.531
		Monitoring4	0.595
Risk	0.701	Risk1	0.519
		Risk2	0.509
		Risk3	0.528
Independence	0.869	Independence1	0.705
		Independence2	0.789
		Independence3	0.757

Explain the above variables as follows: Utilitarianism: Auditors’s perception of Utilitarianism; Deontology: Auditors’s perception of deontology; Egoism: Auditors’s perception of Egoism; Philosophy: Business philosophy of audit firms; Management: Management practices of audit firms; Monitoring: Monitoring and control of Association of Certified Public Accountants; Risk: Risk of audit practice; Independence: auditor independence.

The article analyzes the EFA factor. The article examines the convergence of the observed variables Appendix 2. The authors find that the factor analysis is appropriate when KMO coefficient is in [0.5, 1] and Sig = 0.000 < 0.5. The results in Table 4 meet these standards.

**Table-4.**  
KMO and Bartlett’s Test.

		Dependent variable	Independent variables
KMO value		0.727	0.677
Bartlett’s Test of Sphericity	Approx. Chi-Square	451.205	3385.320
	Df	3	253
	Sig	0.000	0.000

To assess the suitability of the model with market data, researchers are often interested in chi square/df indices, the Tucker–Lewis index (TLI), CFI comparative index, RMSEA - an important indicator to determine the suitability of the model against the overall. In some case studies, they distinguish two cases: chi-square/df<5 (with sample N > 200); or <3 (when sample size N < 200), the model is considered good. Our sample size is 300 (n > 200), so if the model receives chi-square/df<5 (also known as cmin/df<5), the TLI, CFI ≥ 0.9, RMSEA ≤ 0.08 then the model is considered suitable. Table 5 presents the confirmatory factor analysis (CFA). Results CMIN/DF = 2.028 < 5, CFI = 0.925 > 0.9, RMSEA = 0.059 < 0.08 reflected that the pattern was consistent.

**Table-5.**  
Confirmatory factor analysis.

<b>Model</b>	<b>CMIN/DF</b>	<b>CFI</b>	<b>RMSEA</b>
Default model	2.028	0.925	0.059
Saturated model		1.000	
Independence model	12.480	0.000	0.196

From the appropriate model test results above, the article has estimated the regression model for the auditor independence. Hence, it can be argued that all the factors affecting the auditor independence are in the order of importance and degree as presented in the Table 6.

**Table-6.**  
Factors affect auditor independence.

<b>Factors</b>	<b>Dimensional impact</b>	<b>Impact level</b>
1. Philosophy	+	0.264
2. Monitoring	+	0.093
3. Deontology	+	0.060
4. Management	+	0.054
5. Egoism	-	0.045
6. Utilitarian	+	0.031
7. Risk	-	0.020

Assuming that all other factors are constant, the direction of the impact of the above factors on auditor independence is consistent with the original hypotheses H1, H3, H4, H5, H6.

Both the hypotheses H2 and H7 are rejected due to the finding that the perception of Egoism and the perception of practicing risks inversely affect auditor independence. This direction of impact may stem from the low-risk audit environment in Vietnam. All the published audit offenses mainly relate to the audit practice registration, the time of updating unsecured knowledge and the inappropriate professional judgments. Meanwhile, the audit irregularities affecting the decision of users of information in financial statements have not been clearly defined and disclosed. Therefore, the auditor's perception of Egoism and professional risks does not increase independence in the present context.

### 5. Conclusions and Implications

Auditor independence is one of the most important attributes of audit professional ethics. Intending to contribute to the theoretical development of the researched issue, the article has identified and estimated the model of factors affecting auditor independence following the auditor's perceptual approach to audit activities in Vietnam. In addition to the factors inherited from previous studies that have been adapted to fit the audit practices in Vietnam, the article has discovered new factors relating to the auditor independence in Vietnam: perception of the auditor's deontology, egoism and utilitarianism during the audit practices; business philosophy of audit firms. The results form a solid basis for the development of further studies that would identify other specific factors. Moreover, practical contributions also are made throughout. It is suggested that the auditors need to raise their perception of professional ethics in the audit process to maintain independence. Additionally, in the context of Vietnam's economy integrating deeply with the world, all auditors need to proactively improve foreign language skills, acquire new knowledge and technology to improve their working performance such as professional judgment and skepticism. Meanwhile, the audit firms need to take advantage of becoming partners of international audit firms to ensure the effectiveness of management and control processes. Audit firms' directors should relate the development of audit activities to improve auditor independence. It is a sustainable development orientation because auditor independence is a fundamental requirement of contemporary society and economy toward the audit industry. In addition, the ACPA should put forward an appropriate orientation in the auditors' training to extend the ethical topics such as focusing on the ethical perception of the auditors, performing social responsibility disclosures toward the community, partners, customers and all related parties. In particular, the ACPA recommends enhanced supervision, strictly handles and discloses all serious cases of violations of professional ethics and promotes auditor independence to create a strict legal environment that leads to strong compliance with the professional code of ethics of the international audit industry.

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**Appendix-1.**

Scale and survey question.

The scale of independent variables is designed according to Likert 5 steps, measured according to the levels:

1. Strongly disagree; 2. Disagree; 3. No comments; 4. Agree; 5. Strongly agree

Concept	Variables	Variable measurement	The basis of the scale
<b>Perception of professional ethics</b>			
Utilitarianism	Utilitarianism1	The auditor considers the benefits of users of financial information during the audit process and makes his or her decisions in accordance with the public interest.	[26, 27]
	Utilitarianism2	Auditors are aware of ethical issues that are in the public interest.	
	Utilitarianism3	The auditor makes decisions that are acceptable to the public.	(*)
Deontology	Deontology1	Auditors often consider the provisions of professional ethical standards or auditing standards to propose solutions to minimize the dilemmas related to ethical behavior.	[26, 27]
	Deontology2	Auditors comply with applicable laws and regulations on accounting and auditing standards.	
	Deontology3	Auditors perform the work in such a way that they think it is widely accepted by the society for the audit job.	(*)
Egoism	Egoism1	Auditor make ethical decisions in the work of the auditor if these things are best for them.	[26, 27]
	Egoism2	Auditors determine that the most appropriate alternative measures for themselves when practicing the audit.	
	Egoism3	Auditors do things that do not affect their reputation and professional qualifications.	(*)
<b>Ethical perception from the auditing company environment</b>			
Philosophy	Philosophy1	Audit company leaders determine compliance with standards on audit, professional ethics is important.	(*)
	Philosophy2	Audit company leaders determine improving the quality of auditing is important.	(*)
	Philosophy3	Audit company leaders determine that improving the good working environment and long-term commitment for auditors is important.	(*)
Management	Management1	Effective audit process	(*)
	Management2	Effective quality review process	(*)
	Management3	Specific provisions for situations that threaten to damage the auditor independence and corresponding risk mitigation measures	(*)
	Management4	Regulations on sanctions against auditors and assistant auditors when violating professional ethics	(*)
<b>Ethical perception from the direction and control of professional organizations</b>			
Monitoring	Monitoring1	Training, updating knowledge related to professional ethics and audit expertise	(*)
	Monitoring2	Guidance for professional ethics and auditor independence	(*)
	Monitoring3	Supervision of professional organizations	(*)
	Monitoring4	Check quality audit	(*)

Risk	Risk1	Risk of auditors being fined for losing practicing certificates	[29]
	Risk2	Risk of auditors being disciplined by professional Associations or legal agencies.	
	Risk3	Risk of auditors encountering litigation against themselves.	
<b>Ethical perception from independent auditors</b>			
Independence	Independence1	Auditors have not taken any action to harm the auditor independence during the audit process	[34, 35]
	Independence2	Auditors do not have any perception, attitude, that harms the objectivity, honesty during the process of performing the audit.	
	Independence3	Auditors consider and maintains the "auditing skepticism of the auditing profession" during the audit process	

Note: (\*) The article develops a new scale suitable to the Vietnamese context through expert group discussions.

**Appendix-2.**

Analysis of convergence of observed variables.

**Component Matrix<sup>a</sup>**

	Component						
	1	2	3	4	5	6	7
Utilitarian1			0.689				
Utilitarian2			0.613				
Utilitarian3			0.529				
Deontology1	0.776						
Deontology2	0.769						
Deontology3	0.625						
Egoism1	0.622						
Egoism2	0.687						
Egoism3	0.642						
Philosophy1					-0.668		
Philosophy2					-0.659		
Philosophy3							
Management1		0.715					
Management2		0.659					
Management3		0.709					
Management4		0.742					
Monitoring1							
Monitoring2				0.530			
Monitoring3				0.617			
Monitoring4				0.679			
Risk1						0.676	
Risk2						0.640	
Risk3						0.673	

Extraction Method: Principal Component Analysis.