Effectiveness of code of ethics in Iran

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Abstract

Due to the importance of auditors’ role in lending credibility to the financial reports, there should be guidelines and laws to assure the users of the fact that auditors are independent. Therefore, the professionals have designed Code of Ethics to be able to harmonize the ethical behavior of auditors and to ensure that auditors react similarly to similar ethical issues.

We are going to test the Iranian auditors in respect of the following code of ethics and the effectiveness of that code in dealing with ethical dilemmas. In this regard we found it apt to apply positivist philosophy as well as deductive and quantitative research method.

We test our four hypotheses through five theories including agency theory, profession theory, institutional theory, legitimacy theory and moral development theory. Our aim was to investigate the auditors’ perception regarding the effectiveness of Code of ethics concerning the prohibition of rendering NAS and Mandatory Audit Rotation in case of the existence of possible threats to the independency of the auditor as well as the effect of rules versus principles contained in the Code.

Accordingly empirical result shows that the need for rules and principles in code of ethics can be different in rendering audit and non-audit services to listed and not-listed clients. Accordingly MAR will be effective for auditing listed client; however, prohibition of rendering NAS will be effective in case of all kinds of clients.

Ultimately we come to the fact that the result can be tested through comparison Iran with other countries to see if there are significant differences exist or not.

Key words: Auditor independence, NAS, MAR, Code of ethics, rules vs. principle, Iran
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Abbreviation

CPA           Certified Public Accountant
DIT           Defining Issue Test
FEE           Fédération des Experts Comptables Européens
GAO           General Accounting Office
IACPA         Iranian Association of Certified Public Accountants
ICPAI         Institute of Certified Public Accountant in Ireland
ISA            International Standards of Auditing
MAR           Mandatory Audit Rotation
NAS           Non-Audit Services
PCAOB         Public Company Accounting Oversight Board
SEC           Securities and Exchange Commission
U.K           United Kingdom
U.S           United State
WTO           Word Trade Office
# Table of Contents

*Effectiveness of code of ethics in Iran* .................................................. 

Abstract ........................................................................................................... 1

Acknowledgment .............................................................................................. 2

Abbreviation ..................................................................................................... 3

1. Introduction .................................................................................................. 6
   1.1. Background......................................................................................... 6
   1.2. Problem discussion ........................................................................... 9
   1.3. Research purpose and question ......................................................... 12
   1.4. Outline............................................................................................... 13

2. Research method .......................................................................................... 14
   2.1. Introduction ....................................................................................... 14
   2.2. Research Philosophy ......................................................................... 15
       2.2.1. Positivism .................................................................................. 16
       2.2.2 Interpretivism .............................................................................. 17
   2.3. Research approach .............................................................................. 18
       2.3.1 Qualitative / Quantitative approach ............................................... 19
       2.3.2. Deductive / Inductive approach .................................................. 20
   2.4. Choice of theory ................................................................................ 20

3. Theory ......................................................................................................... 21
   3.1. Agency theory .................................................................................... 21
   3.2. Theory of Profession ......................................................................... 23
       3.2.1. The Profession of Accounting and Auditing .................................. 25
       3.2.2. The profession of auditing in Iran ............................................... 27
   3.2.3. Professional Code of Ethics in Iran ............................................... 29
   3.3. Theory of Legitimacy ......................................................................... 33
   3.4. Institutional Theory ............................................................................ 35
   3.5. Theory of Moral Development .......................................................... 38
   3.6. Development of hypothesis ............................................................... 40
4. Empirical method........................................................................................................43
4.1. Research strategy ........................................................................................................43
4.2. Sampling.....................................................................................................................44
4.3. Questionnaire design ...............................................................................................45
4.3.1. Variables..................................................................................................................46
4.3.1.1. Dependent variables ..........................................................................................46
4.3.1.2. Independent variables .......................................................................................47
4.4. Limitation of questionnaire .....................................................................................49
4.5. Validity and Reliability..............................................................................................49
5. Statistical analysis.......................................................................................................52
5.1 Respondents` Background ......................................................................................52
5.2 Question description .................................................................................................52
5.3 Hypothesis Testing and Linking to Questions...........................................................55
6. Conclusion....................................................................................................................65
6.1. Summary ..................................................................................................................65
6.2. Implication..................................................................................................................66
6.3. Criticism.....................................................................................................................66
6.4. Further research .......................................................................................................67
References ......................................................................................................................68
Appendix 1 - Tables .......................................................................................................73
Appendix 2- Questionnaire in English .........................................................................75
Appendix 3 - Questioner in Persian .............................................................................77
1. Introduction

The chapter of introduction will begin with presenting a background of the subject. Then, we will discuss the problems leading to our choice of purpose. This chapter will end with the logical structure of this thesis.

1.1. Background

The separation between provision of capital and management which also refers to the ownership and control, in addition to the flow of investor funds into the corporation, while there were different objectives of the investors and creditors on one hand and the management on the other hand, made the need for the informed, credible and impartial audit opinion vital (Hayes and Schilder, 2005). Jensen and Meckling (1976) wrote one of the most important articles regarding the relationship between agent (management) and principal (shareholders who are the owners of the firm). Their article basically discusses about the theory of ownership structure of the firm. As Cannan (1904) initially emphasized on the role of management as agent who may have different incentives in comparison with those of the owners, Berle and Means (1932) also described this issue 157 years later. Furthermore, Jensen and Meckling focus on the “agency problem” based on agency theory to explain the effect of this separation by taking into account the “cost agency” in this regard.

Moreover, there was also a change in the type of investor. As a matter of fact, the investors have mostly been “domestic” in the nineteenth century; while in the twentieth century, capital was coming from foreign sources as well (Baker, 2005). As a result the separation became extensive and the need for an auditor as a third impartial party to keep the investors’ confidence in financial reporting became prominent.
In fact, auditors are responsible for assuring the truthfulness of financial reporting by organizations. Basically, statutory auditor should be accountable to the shareholders and is entrusted by law to do so. Thus, auditor will accomplish his societal role by means of expressing his professional opinion (GreenPaper, 2010). To do so, there are specific qualifications comprising technical and ethical principles, which are fundamental and ought to be followed in rendering audit services.

Thus accounting standards were established to provide auditors with guidelines and as such safeguard the audit opinion. Observing the ethical principle comes first and foremost. All auditors must be independent both in mind and in appearance according to ISA 200 (IAASB, 2009). Moreover, such other moral considerations as honesty, integrity, objectivity and confidentiality are necessary for auditors (Hayes and Schilder, 2005).

In this event, most regulators and professionals such as FEE (2004) believe that independence is the cornerstone of this profession. In addition, FEE Ethics Working Party Chairman Harald Ring mentioned that: “the accountancy profession has strongly supported the independence reforms. Any further regulatory initiatives must not precede an evaluation of the results of the many initiatives recently enacted and currently being implemented throughout Europe. A stable platform on independence is required to focus more broadly on the common goal of high audit quality.”

Green Paper (2010) also refers to the independence of the auditor as the bedrock of the audit environment. Anyway, independence in mind refers to the situation in which auditor is not influenced by others’ opinion, even if it is against the client’s request. So it is not easy to conclude about being independent in mind (Baker, 2005).

However, it is hard to regulate independence in mind or so called independence ‘in fact’, since this kind of independency is not observable in a timely manner. Thus, regulators such as SEC(2000) focus on defining independence on the basis of ‘independence in
appearance’. So no matter an auditor is independent in fact, in order to be accepted as an independent auditor, a reasonable investor should conclude that an auditor is apparently capable of acting without bias (Dopuch et al., 2003).

According to ISA 200 “independence enhances the auditor’s ability to act with integrity, to be objective and to maintain an attitude of professional skepticism”. These qualities in addition to such technical qualifications as due care and technical competence are some of the important ones (IAASB, 2009).

In order to address the moral dilemmas based on Lutz Preuss (1999), Code of Ethics is very important. However standard setters should consider the need of shareholders with different perception regarding the objective of auditing and the extent of judgment in auditing. Lutz believes that auditing standards are mostly “behavioral principles” and as a result need more auditor’s judgment.

Notwithstanding decades of improving accounting and auditing standards, ambiguity concerning the meaning of independency is still the issue that needs to be elaborated. As Page et al. explains, this ambiguity can be observed in terms of the purpose of financial statements, the receivers of the financial statements, in accounting standard setting, the identity of the auditor’s client group and the role of internal audit which are the major issues in accounting and auditing. In this regard, regulators pay lots of attention to the framing of the standards as well as the principles and codes of ethics. However, this ambiguity is helpful in developing rules (Page and Spira, 2005).

Despite the fact that there are codes of ethics for auditors, there are threats that put audit independence in peril and as a result draw regulators and professionals’ attention towards designing safeguards. Threats include the risks of compromising or ignoring the rules by the auditor, and the safeguards are proper actions to remove those treats or to diminish them to an acceptable level. It is expected that whenever the auditors perceive a situation as posing a threat, they should consider the effectiveness of safeguard and apply them if
those safeguards can eliminate the risk. Otherwise, they should avoid those kinds of situations. The threats include self-interest, self-review, advocacy, familiarity or trust and intimidation.

1.2. Problem discussion

Recently, a huge number of articles have been published regarding the accounting scandals and audit failures, which were apparently at the sacrifice of public good. Consequently, pressure mounted on accounting and auditing profession, and the issue of the auditor’s independence has been subjected to considerable scrutiny. Mentions, not only companies such as Enron were responsible for these business scandals, but also accounting firms themselves were accused for that. As a matter of fact, the auditing firms had earned significant amounts of revenue and profit mainly through consulting rather than auditing, especially during the 1990s. It seems that they lost their focus on their main responsibility (Duska, 2005). As a result, the effects of these increased consulting fees on auditor independence were not thoroughly considered. Duska (2005) believes that this was the case of all Big Five firms.

As a consequence of these failures, external regulation was resisted to be imposed, and it led to rewriting professional codes. In this regard, the view of Sikka & Willmott (1995) was that amendment of “self-regulatory” in accounting and auditing profession was one of the results of “doubts about the accountant’s claim to independence”. In addition to these amendments, there was a need for clarifying the public perception regarding this profession, one more time.

According to the Code of Ethics for Professional Accountants of IFAC, there are threats that put audit independence in peril and as a result draw regulators and professionals’ attention towards providing safeguards. The threats include the self-interest, self-review, advocacy, familiarity or trust and intimidation threats. First of all some brief definitions of the threats seem to be necessary.
• **Self-interest threat:** these threats include financial and non-financial interest in client, excessive need for the client’s audit or non-audit fees or trying not to lose client.

• **Self-review threat:** this threat refers to the situation in which it is hard for auditor to be impartial during the self review procedures, including taking decision or be part of the decision makers’ team that should be taken completely or in case of referring to previous audit or non-audit product while needs to be revalued in order to be suitable for drawing conclusion on the current audit.

• **Advocacy threat:** Pertain to the situation in which the statutory auditor becomes an advocate for or against his client’s position in situations such as dealing in or promoting shares or securities or acting as an advocate on behalf of the client in litigation.

• **Familiarity or trust threat:** Whenever there is too far or too close relationship between statutory auditor and the client’s personnel, auditor may presume the client’s representations as being qualified, so will lose his objectivity towards testing the client’s statements and reports.

• **Intimidation threat:** Refers to the situation in which the auditor may be prevented from acting objectively by threats or by fear of, for example, an influential or domineering client (Beattie and Fearnley, 2002).

Self-interest which includes fee dependence is one of the most influential elements. Accordingly we should mention that in contrast to the way of rendering audit services prior to the 70s and 80s, publicly advertising audit services has no longer been impeded after 1970, which led to the reduction in auditor independence. The reason was to be more profitable; audit companies not only rendered audit services, but also began to rely more on the revenue earned through non-audit services, which posed a risk to the audit independence (Baker, 2005).

Although, on one hand, audit costs regarding the qualifications may be recovered through non-audit services (Houghton and Jubb, 1999), Francis explains that there are unquestionable evidences that non-audit services won’t lead to a failure in auditing.
Nonetheless, rendering those kinds of services may not only damage the appearance of audit independence, they may also reduce the stock prices (Burger and Warnock, 2007). He believes that ignoring professional judgment is the result of focusing on independence in appearance which will lead to denying independence in mind (Francis et al., 1999).

As to the movement of considering independence in appearance instead of independence in mind, Zeff (2003) explains how the increase in NAS leads to the decrease in professional standards and as a result to a reduction in the level of independency in large US companies. Moreover, these kinds of changes are analyzed by Citron (2003) regarding UK profession. He believes that these problems are the result of UK companies’ tendency toward ignoring independency rules by making vague the differences between non-audit and audit activities.

In this case, there are two different points of view. One group of professionals believes that it is not advisable to outlaw rendering non-audit services as a means of safeguarding the independency, in contrast those who find it effective in improving the independency.

In case of enhancing auditor independency, the other safeguard is mandatory auditor rotation against familiarity, which is the other important threat. Rotation can be in audit firm level or in one firm between partners. There are proponents and opponents of this rule, and lots of debates exist regarding the effectiveness of MAR.

As it is important to keep abreast of the latest audit issue, we should mention that this is the case that has recently been considered so much by PCAOB, and it can be followed in accounting journals. For instance, Jack Humphrey quoted PCAOB Chairman James Doty (2011) as saying that “One cannot talk about audit quality without discussing independence, skepticism and objectivity. Any serious discussion of these qualities must take into account the fundamental conflict of the audit client paying the auditor. The reason to consider auditor term limits is that they may reduce the pressure that auditors
face to develop and protect long-term client relationships to the detriment of investors and our capital markets.”

He also said that “The very size, complexity and systemic risk found in today's issuer population supports the need for reconsideration of audit firm rotation,". Accordingly, PCAOB is attempting to obtain comments regarding “Rotation” in addition to other possible safeguards.

From prior studies, we can see that when they analyze the effectiveness of MAR and prohibition of rendering NAS, some of the findings suggest positive effect on auditor independence. However, some results are just the opposite. To some extent, the degree of correlation between these safeguards and independency rely on different circumstances that may exist in different countries. This study focuses on Iran as a developing country which mainly follows the US rules. The study is aimed at finding out how people in this profession perceive these safeguards as an effective means regarding the independency as a cornerstone of ethical aspect of the profession. Lack of research activity in Iran’s auditing environment served as the main motive to conduct this research.

1.3. Research purpose and question

The main purpose of this thesis is to explain how Mandatory audit rotation and prohibition of rendering non-audit services safeguard the independency against threats; perception of Iranian auditors regarding the effectiveness of safeguards through rules and principles of Code of ethics.

Our question is whether “MAR and prohibition of NAS as the means of safeguarding the independency against threats will be effective enough, in addition to the rule-based vs. principle-based characteristics of code of ethics while exploring the perception of the Iranian auditors regarding the effectiveness of these safeguards in Iran”.
1.4. Outline

The outline gives readers the structure of the final thesis logically.

Introduction: We start out the final thesis by providing general knowledge about audit and auditor independence. Then we discuss the problem leading to the question of our research and limit the area where the research is to be conducted.

Research method: In this part, we present the method employed in this research.

Institutional setting: This part introduces the institutional environment of audit profession in Iran.

Theory: By discussing factors which can impair audit independence as well as some theories, we come up with some hypotheses to provide readers with questions from academic and empirical points of view.

Empirical research: We describe how to choose samples, the content of questionnaire and data analysis.

Statistical analysis: Based on the results of the survey, we analyze the findings statistically.

Conclusion: The thesis culminates in the conclusion, the potential future research based on our limitation and changes in our economic context as well as our advices for the improvement of audit independence.
2. Research method

This chapter is to describe our research method including research philosophy and research approach, and it concludes with choice of theory.

2.1. Introduction

The starting point in taking into account the steps of conducting the research is to focus on the research question. Other aspects need to be matched with this point of research. Determining of the methodological perspective, after representing the ontological and epistemological assumption, is the next step (Abernethy et al., 1999). Ontology is about the way the researcher perceives the reality in the world, i.e. the nature of reality. Accordingly, the other aspect of philosophy, epistemology, is specifically about “how knowing the reality develops and what can be known”. Finally, methodology concerns “how researcher can be informed about the way of knowing his/her beliefs” (Blackburn, 1996, Proctor, 1998).

In doing research, we should consider the importance of the epistemological foundation of our research to set up the research design. By research we increase our knowledge; however, research is one of the ways of obtaining knowledge (Hussey and Hussey, 1997).

Research philosophy can help us understand how to combine theory and methods. We have outlined our research purpose and questions in chapter one. In this chapter we will present the research philosophy and approach, and will expound our research methodologies adopted and the choice of theory.
2.2. Research Philosophy

By research philosophy we mean the principle for gathering accurate data, the way of analyzing them and ultimately taking advantage of the reasonable results. This accuracy and reasonableness is important since those findings of the research will be used in judgments. By research strategy we mean the procedures we choose to do our research and also to solve the research problem. To design a research in the precise way, it is needed to have a research philosophy and to distinguish the differences between applicable philosophies, in order to be able to find the best way to answer research question.

We should gather appropriate evidence to answer the research question and to test the theory. In this regard, we will prepare “research design”. That design is mainly the logical structure of a research, which is different from method of gathering data. Accordingly, by research design we mean for instance: experiment, case study or cross-sectional study. However, by method we mean using interview, questionnaire, observation etc. As Yin (1993) discusses, method does not imply any particular form of data collection, which can be based on qualitative or quantitative methodologies.

For this study, selecting an overall research philosophy is the choice between two major research philosophies: positivist and interpretive, which have been identified in the Western tradition of science (Galliers, 1991). According to social science studies, there are also such other theoretical perspectives as realism and constructivism. The fundamental debate in constructivism is that reality is what people construct and experience in society (Gergen, 1999). Accordingly, this unique experience of each of us from the outside world will lead to different perceptions of reality which is subjective and independent of the person. This insight is in contrast to positivism (Berger and Luckman, 1966). Direct and critical realism which are somehow based on the same belief as that of constructivism, have two similar characteristic in common with positivism, i.e. “data collection and explanation” (Bryman and Bell, 2003). Recently the philosophy known as
post-positivism perceives the reality as what humans construct and, as such, it is subjective. In social science, it is assumed that positivism is able to explain what is physically observed. However, in post-positivism, researcher is able to have several perspectives or “multiple perspective” denoting that “reality is multiple”. The major problem of post-positivist philosophy is interactive characteristic of qualitative method (Cook, 1985).

2.2.1. Positivism

Positivist research involves “… precise empirical observations of individual behaviour in order to discover … probabilistic causal laws that can be used to predict general patterns of human activity” (Neuman, 1997)

Based on positivist point of view, the traditional scientific method is useful for natural science as well as social science (Bright, 1991). This philosophy mainly is based on investigation rather than exploration and describing. The emergence of this philosophy dates back to the 18th and 19th centuries. It was later known as logical positivism in early 20th century. After all, this philosophy is related to the post-war era.

The Central argument of positivism is the existence of objective reality free from influence of human behavior and that real knowledge must be observed or felt by experience, and also to get to know the objective environment by an independent researcher. According to Smith (1998), we can have a deep insight into positivist thinking within social sciences which was descripting like this: ‘Positivist approaches to the social sciences … assume things can be studied as hard facts and the relationship between these facts can be established as scientific laws. For positivists, such laws have the status of truth and social objects can be studied in much the same way as natural objects’.

Positivism basically focuses on the values of reason, truth and validity, especially in the second period of its improvement. It emphasized on facts, collecting data through direct observation and measuring them empirically using quantitative research methods such as
surveys, experiments and statistical analysis which are valid for law and additionally
deductive thinking(Blaikie, 1993, Saunders et al., 2007, Eriksson and Kovalainen, 2008,
Easterby-Smith et al., 2008, Hatch and Cunliffe, 2006b).

Although positivism has traditionally been applied by researches, there are some critics to
this philosophy. The critics are mainly about the fact that information that is obtained
through this approach is useful but not profound(Bond, 1993, Moccia, 1988). Since the
fundamental aspect of positivism is investigation to establish a law to be generalized to a
larger population, it is argued that in examining the human behavior this approach may
just provide knowledge about the ”nature of men” but may not deeply consider this issue.
As a result, in discussing such topics as human feeling, this philosophy is not suitable.

2.2.2 Interpretivism

In contrast to positivism, interpretivism is not in favor of the concept that in studying the
human behavior we can use the same methods as are used in such fields as physics or
chemistry, in addition to belief in the interpretative nature of social science. In this regard
it is explained that in case of examining a material in physics, the environment can
directly affect and change it,while in case of human being’s behavior, the environment
does not have an absolute effect, because peoples’ subjective understanding of their
environment have also great influence. So peoples` view should be considered in case of
learning about human behavior too. This philosophy advocates that the cognitive
complexity of the world should be realized through research of experience and peoples` point of view of their world. Researchers should explore the real life in depth, through
scientific means and language in order to explain the meaning of these, such as
interactive interviews, participant observation and other research tools(Bowen, 2002).
Interpretivists aim to work alongside others as they make sense of, draw meaning from
and create their realities in order to understand their points of view, and to interpret these
experiences in the context of the researchers academic experience (Hatch and Cunliffe,
Interpretivism is associated with qualitative approaches to data gathering (Eriksson and Kovalainen, 2008).

In summary, in contrast to accurate knowledge as it is in positivism, interpretivism believes that knowledge supplies interpretation that is suggested by special people in specific time. In our thesis, we will use positivist philosophy, because all sorts of hypotheses which will be proposed are based upon the existing theories and facts.

2.3. Research approach

Research usually can be implemented through a non-empirical approach, an empirical approach, or a combination of the two. In this thesis, we are going to use empirical approach. For this approach, to systematically go through solving problem, there are deductive and inductive approaches.

Theory is what is applied in order to answer the question “why” in social science. The function of theory in empirical research can be explained by distinguishing the differences between “theory building” and “theory testing”. Based on “theory building”, the researcher applies inductive reasoning through observation, as a result of which the theory will be obtained.

In ‘theory testing’, we use observation to test an existing theory, which is called “deductive reasoning”. The theory directs us to the kind of observation that is needed to be made.

Comprehending the distinction between qualitative and quantitative research will be necessary in order to collect data. It is mostly presumed that social survey and experimental studies are basically quantitative research and from the other point of view, case studies are mainly qualitative according to their interpretive approach.
2.3.1 Qualitative / Quantitative approach

A number of authors (Cavaye, 1996, Darke et al., 1988, Hussey and Hussey, 1997, Leedy and Ormrod, 2001, Miles and Huberman, 1994, Myers, 1997) have commented on the choice between qualitative and quantitative methods in empirical research. Quantitative research is a research process through statistical surveys or experimental method, to establish hypotheses as in natural science, to collect accurate data and make statistical analysis and testing. As a way of thinking which is not accurate positioning, quantitative analysis has very obvious advantages over the qualitative analysis. It defines the things in the scope which can be understood by human beings.

Qualitative research is a research method that came into being under the influence of Interpretivists Philosophy of social science. It tends to use interviews, observations and literature to collect data, and make research based on subjective understanding and qualitative analysis. Quantitative research, which is generally associated with the philosophical traditions of positivism, and qualitative research, is most commonly allied with Interpretivism philosophy (Polit and Beck, 2006).

The choice of research approach is bases on the nature of research question; however, the chosen method may be supported by researcher’s perception of philosophy or his/her belief and experience. In order to solve the question we proposed in the introduction, we will send out questionnaires to find the perceptions of auditors in Iran. Depending on the auditors’ reply we are going to analysis the way these safeguards may influence the independence of audit. We will use quantitative approach to collect data from a large number of respondents who are engaged in audit work. Once the data is collected, we can propose and test our hypothesis.
2.3.2. Deductive / Inductive approach

Induction refers to obtaining a general rule from several individual cases. This approach mainly emphasizes on collecting the data and making a general conclusion. It goes from the specific to the general. The advantage of it is that it embodies the fundamental laws of many things and can represent things in common, but it is easy to make incomplete induction of the problems.

Deduction is, on the contrary, a method that applies general conclusions or common sense to individual cases. Deduction goes from ‘general’ to ‘specific’. It starts from the definition of fundamental law and recurrence step by step. The conclusions of induction are beyond the scope of the premise, but the conclusions of deduction do not exceed the scope of determination of premise.

So in this study, a mainly deductive approach has been employed to analyze the relationship between these safeguards and the audit independence. According to the aim of this thesis, we will test the hypothesis based on existing theories. Thus deduction is a better choice.

2.4. Choice of theory

A brief introduction of the institutional setting in Iran is presented. Then we will adopt agency theory, profession theory, legitimacy theory, institutional theory, and moral development theory. Through the study of the audit situation in Iran, we want to deeply explore the perception of auditors’ about the effectiveness of aforementioned safeguards on auditor’s independence. Our hypotheses are developed based on these theories and factors.
3. Theory

Since the purpose of this research is to examine the factors influencing auditor’s independence in Iran, it is required to look into the theories related to the audit independence, threats to the auditor independence and the actions that safeguard the auditor’s independence. That is the purpose of this chapter.

3.1. Agency theory

In order to describe the aim and usefulness in addition to the process of improvement of statutory audit, we need to understand the principle-agent relationship. Since the principle trusts the agent and authorizes the agent to decide on behalf of the principle, he needs to be assured of the fact that the agent will act in accordance with the principle’s interest. However, in addition to principle, other stakeholders need to be informed of the financial condition of the firm, the latter not being addressed in this debate.

Nevertheless, because of information asymmetry and different incentives of agents and principles, principle may lose confidence in the function of agent. As a result, the monitoring system will seem to be necessary.

Due to the recent scandals and increased demand for improvement of auditing as a monitoring system, there are concerns about the way of strengthening the public confidence in auditing. In this regard we need to understand the perception of users such as regulators, shareholders and board of directors about the role of auditors, in addition to the user’s expectations and also the limitation of this role. Although agency theory can answer questions like these, focusing merely on this view is not appropriate (Bagshaw, 2006).
According to the principle-agent relationship, it is assumed that on account of elements that are not pertinent to principle, agent`s incentives are not the same as principle`s motives and that will influence on agent`s function. Because of that, they may have different approaches in a firm; and it may seem that the agent is not impartial. Thus, for the sake of users, who need reliable and unbiased information, there should be a monitoring mechanism for assuring the principle of trustworthiness of information, so that principle will be able to control the agent decision making function. Remuneration plan, bonus and share option are examples of useful mechanisms that can be mentioned in contracts and in corporate law. Fines may also be imposed for those who won’t follow the regulations. Common law also binds the directors in a firm by defining their duties.

Preparing the financial statements is one of the initial ways thereby the shareholders are able to control the management. And so auditor should report independently in case of fairness of information that is essential for decision making. Although they work as an agent base on contracts, they are expected to be independent from manager, since they are going to solve the agency problem (Bagshaw, 2006).

Auditing is the mechanism that is considered in market and as Richard Brown (1905) explains; people need to trust each other by checking the performance of one other in fulfilling their duties. Thus the auditor can play an important role in this event, but it can be more complicated by introducing a new principle-agent relationship. As an auditor is also an agent, there is a concern about the trustworthiness of auditors themselves as regards their independency. This is; however, a simple agency view which doesn’t consider other stakeholders expectations.

Auditors, as agents, may avoid risk in their task, for example by decreasing the scope of their work. They may have some working relationship with the managers which can damage the independency of auditors. That can lead to the establishment of more detailed standards and firm control on the auditors. To protect their reputation, auditors are concerned about their own objectivity (Walker, 2003).
Although it can be assumed that agents may not be reliable, there can be some trustworthy agents even when there is no monitoring system in place. In addition to external independent third party as a monitoring mechanism, it is possible to increase rules and regulations. There are regulators who concentrate on reporting regulation, directors or auditors. Regulators are more interested in audit regulation as it is essential to assure the trust of the whole market. It is not true that regulations are going to take advantage of auditors as those regulations can benefit them too.

3.2. Theory of Profession

In order to apply this theory, we first need to learn about various definitions of profession itself. Researchers such as Larson (1977) believed in the connection between knowledge and profession. So they focus on the impact of knowledge in explaining the theory of profession and consider it as a core specification of professionalism (Halliday, 1987).

In this regard, we should refer to the writings of Marx Weber (1888) and Merton (1952) who have mostly worked on social theory, as profession theory can be discussed in light of sociology. In their definition of profession, basically in western countries, they mention the technical qualification as a requirement for those who work in ‘office’. As a result, technical efficiency has been considered as an important quality in division of duty and labor.

Based on theory, a profession should be considered according to its two aspects, the occupation and the knowledge. Basically, practitioners need to have a special competence to work as an expert and should be distinguished from rest of the society as a whole by their specific knowledge in a specific field. In fact, this characteristic makes distinction between profession and other occupations (Sundin, 2002). Larson (1977) defines ‘profession’ as a combination of high education and desirable position. Although many efforts have been made to define the “profession”, such definition has not been achieved yet (Barber, 1963). Regarding this concept, Dingwall (1976) also explained that ’a
concept which is notorious for the diversity of its definitions and usage by sociologists (p. 331).

Besides, Freidson (1983) discussed about this concept by emphasizing on historical aspect of the process of changing it based on the characteristic of society in each special period of time. Moreover, this concept has an Angola-American origin and is mainly considered in industrial countries. Accordingly, Freidson and those who share his beliefs are not looking for defining the “profession” restrictively, but to make it easy to understand (Yee, 2001).

Furthermore, Abbott (1988) found it irrelevant to have an explicit definition for profession. He believes that “exclusive occupational groups apply somewhat abstract knowledge to particular cases” and that “the term profession is more an honorary title than a technical one” (Abbott, 1988). Abbott (1988) looked at profession in a different light and focused on the professions by considering their jurisdiction as well as their task and the appropriate knowledge to perform that task in addition to recognizing internal and external factors that can change them competitively. It seems that Abbott, despite those who have social perspective in their research, puts more emphasis on interconnection of groups instead of labor division.

Basically, knowledge can be achieved academically and formally or by practice and through an informal procedure. As a result, according to Weber, those who become knowledgeable in academics will receive credential (degree, diploma, etc.) making them a member of a given profession suggesting that they are distinctive from the outsiders (MacDonald, 1995). In this respect, some researchers such as Beckman (1990) and Freidson (2001) emphasize on the formal training that is gained, for example, at universities as a fundamental aspect of gaining knowledge and required skill in profession which reflects the distinction between the specialized professional and trainee.
Contrarily, practical knowledge, as viewed by Freidson (2001), is not “verbalized” to be known as certified knowledge, and as it can be flexible and versatile, it is suitable for the judgmental nature of performing differing tasks; and accordingly cannot be standardized or be taught. In this regard, MacDonald (1995) creates a new notion to explain the exclusive nature of each profession which he called ‘cognitive indetermination’. Based on this concept and in view of the fact that members of a specific profession tend to be beyond the public and in particular beyond their clients’ inspection, they need to be highly indeterminate. Larson also explains the idea of keeping those who are not member of a given profession separated, who are called ‘the less knowing laity’. Freidson (1983) also discusses “profession” as a phenomenon that is mostly affected socially and culturally. Abbott (1988) also explained the process of doing a professional task by means of “cultural machinery”. However, professionals try to be legitimate through scientific technique rather than “social origin” (Abbott, 1988).

There is also some criticism towards the idea of professionals as those who establish and follow code of ethics and are well trained to serve in a society, without any kind of group interest and conflict, merely for the benefit of the society (MacDonald, 1995).

3.2.1. The Profession of Accounting and Auditing

According to Humphrey (1990), majority of researchers of accounting believe in “socially constitute nature of accounting” and also mention the different tasks and roles they can perform. However, these literatures are not considered in studying the nature of audit work. In case of research on auditing, researchers mostly have a “unitary perspective”, and focus on “technical advantages of expert auditors”.

“Audit is a social phenomenon. It has no purpose or value except in its practical usefulness. It is wholly utilitarian. The function has evolved in response to a perceived need of individuals or groups in society who seek information or reassurance about the
conduct or performance of others in which they have an acknowledged or legitimate interest” (Flint, 1988).

Even if there is not a precise consensus about the meaning of financial audit, the majority of professionals agree on some facts regarding the “audit profession”. First of all, public confidence and stability in market should be there for sure, secondly auditors are responsible for that.

There are other issues such as the fact that audit is not the routine whenever auditor is more and more involved in the client’s affaire for a long time, pressure of regulations to avoid lawsuits that may outweigh what they earn from clients and as a result the clients are not satisfied; and the fact that principles are continuously changed making the business more and more complex, which can also be the result of scandals in this profession, that need to be considered. Ultimately it is important that auditors follow the rules not only to assure the market stability, but also to satisfy their clients by providing them with a high-quality audit against a fair price (U.S. Chamber of Commerce, 2006).

Although it is important to keep in mind that excessive rules and regulation will damage the economy, these rules can guide and help to monitor the professionals. Code of ethics is what we need to follow in auditing. It is obvious that in case of decreasing client’s confidence in audit firm, the firm will be ruined. In addition to that, the risk of lawsuits needs to be considered. In this event, these rules and standards will be necessary to plan and protect the profession (U.S. Chamber of Commerce, 2006).

Based on Watts and Zimmerman (1986) to raise the value of the firm, auditing can play an important role since it could be an effective monitoring tool especially when manager doesn’t provide the entire capital of the firm.

Moreover, independency of auditor, specifically in appearance, was to some extent a new idea in those days. This idea initially seemed to have been established by government in
England in 1862 as a law known as “Registered Companies Act” (Audit-Quality-Forum, 2005)

3.2.2. The profession of auditing in Iran

In order to understand the historical development of auditing in Iran, one should consider the process of developments in accounting. Historically accounting in Iran can be traced back to 550 B.C., when King Darius ruled in Iran. In that time, as Mashayekhi mentioned, “All public revenues and costs were maintained and kept soundly and punctually. Accounting then developed during the next era”.

She continues that according to such researchers as Gernon & Meek (2001), Doupnik & Salter (1995), to examine the process of accounting development, which is the result of development in each country, we need to consider the environmental elements such as “the nature of business enterprise and their relation to the provider of capital, political and economic ties, legal system, tax law, inflation level rate and level of education”. However, she mentions that accounting in Iran as an Islamic country has not been adequately considered in research (Mashayekhi, 2008). The modern Iranian accounting; however, dates back to 1900 when the process of industrialization and flow of foreign investment into the country began.

The earliest reference ever made to the concept of auditing in the laws of Iran dates back to 1932 when provisions were made in Iran’s Commercial Code (passed in the same year) for ‘independent auditor’ to submit a report to the shareholders in general meeting on the general conditions of a company as well as the financial statements prepared by the management. Auditing Laws were one of the first rules that were approved in Iranian parliament.

The employment of the services of certified accountants in tax auditing was first mentioned in the Income Tax Law, passed in 1949. Nevertheless, it was not the consequence of common reasons which refer to economic condition in a country.
As required by the said law, the Ministry of Finance had to accept the report of a certified accountant on the accounts and balance sheets of businessmen and companies as soon as the certified accountants association would have been established. In such case, the investigation of the tax payer’s books for the purpose of tax assessment was not needed. It was mainly a consequence of “Constitutional Revolution” in Iran (Mashayekhi, 2008).

The same provision was exactly repeated in the Taxation Law of 1956, when the enforcement code thereof was prepared and ratified by the Ministry of Finance. The Iranian Certified Accountants Association was established in 1963, which was recognized in the Taxation Law of the same year. In addition to that, based on Direct Taxation Law, The Center of Iranian Official Accountants was founded in 1966 (Mashayekhi, 2008).

Along with measures adopted towards establishment of a professional accounting system as well as the employment of the services of official accountants in tax auditing, the amendment to the Commercial Law (concerning the joint stock companies), passed in 1968, public joint stock companies were required to submit the company’s profit & loss statement and balance sheet accompanied by the report of a certified accountant. The certified accountant was required, on the other hand, to verify that the financial statements prepared by the board of directors properly and clearly represent the financial condition of the company, in addition to commenting on the company’s accounts. Thus ‘auditing of public joint stock companies’ made its way into Iran’s Commercial Code.

Other laws were enacted during the period from 1966 to 1978, in which references were made to ‘auditing’ as a compulsory requirement. According to Tehran stock exchange regulations, only the shares of those companies whose accounts have been audited by accredited auditing firms are accepted in the stock exchange. An amendment, passed in 1980, nullified those articles of the Direct Taxation Law that concerned the certified accountants, as a consequence of which the certified accountant association was practically dissolved. In 1993, the Islamic Consultative Assembly (Iran’s parliament)
passed a law known as ‘Employment of the specialized and professional Services of Competent Accountants as Certified Accountants’. According to this law, the government is authorized to employ the services of the certified accountants is such cases as auditing of the public and private joint stock companies.

The enforcement code of the aforementioned law, prepared by the Ministry of Economic Affairs and Finance with the collaboration of a team of experts, was passed by the cabinet of ministers in 1999.

Improvement of the process of setting “auditing and accounting standards se” in addition to the enhancement of privatization and “foreign private sector” are essential steps toward being admitted as a member in the World Trade Organization (WTO), the membership of which has been sought by Iran.

Accounting in Iran is to some extant in harmony with the international standards, which are used as basis for preparing national standards. Although Iranian National Accounting Standard is primarily based on the international standards, there are differences due to cultural, political situation and religious beliefs. In Iran the Audit Organization which is accountable for: “audit and statutory examination, financial and management consultancy services, setting accounting and auditing standard as well as training, research and publications”, is also responsible for preparing code of ethics (Mashayekhi, 2008).

### 3.2.3. Professional Code of Ethics in Iran

This code is aimed at providing guidelines for the professional conduct, including the general requirements as well as the basic principles that should be observed by all the professional accountants in order to achieve the objectives set for the profession of accounting.

Accounting and auditing principles and requirements shall become binding once approved by the competent authority. The rules of the Professional Code of Ethics are
equally applicable to all the professional accountants, unless otherwise expressly stipulated.

For the purposes of this code, Independent Professional Accountant is a professional accountant who provides the public with his/her professional services. This title also applies to the professional accountants who work in professional institutions.

In section (B), reference is made to ‘the rules applicable to the independent certified accountants’. The first and foremost of this rules is ‘independence’.

1. Independence: When the independent professional accountants accept to fulfill an accounting task which requires professional reporting, they should be free of any interest that may affect or seem to affect their honesty, impartiality and independence.

2. Maintaining financial relations with the client influences the accountant’s independence, and an observer may reasonably presume that the accountant’s independence has been tarnished.

3. If the independent professional accountant is a board member, executive manager, senior employee or partner of the company or in the employment of any of the said persons during the current term, or has been in any of the said positions during the previous term, it is presumed that he/she has such an interest as may adversely affect his/her independence in the course of professional reporting.

4. Providing other services: In cases where the independent professional accountant provides the client with services other than auditing or other operations that require professional reporting, he/she must be careful not to play the role of the management of the client company in adopting or putting into effect the decision.
5. Maintaining personal relations: Personal and family relations may affect independence. Therefore, ensuring that such relations will not endanger the independence of the professional accountant is of special significance.

6. Remuneration: The professional accountant should pay attention to the fact that, in the event a major portion of his/her annual income is constantly earned from a given client or a group of related clients, then such circumstances may give rise to suspicion and ambiguity as to the accountant’s independence. Such cases include the so-called contingent remuneration for purchase of goods and acceptance of conditional gifts, ownership of capital and legal claims and maintaining relations with the client for long periods of time.

To sum it up, independent auditor’s report basically is useful for reviewing tax payer’s financial situation and accordingly auditors should follow “Code of Ethics”.

In Iran, auditing is generally carried out for tax purposes. According to clause (1) of Article 272 of Direct Taxation Law:

Clause (1):

The Tax Office accepts a tax audit report without going through verification process, and issues the due tax assessment notice to the tax payer accordingly. The acceptance of the tax audit report is subject to the fact that the tax payer submits the auditing report on the tax payer’s financial statements, prepared by the same certified accountant or auditing firm and in compliance with the accounting standards, accompanied by the tax audit report at the same time along with the submittal of the tax return or within no longer than three months from the expiry of the statutory deadline for the submittal of the tax return.

The next resource concerning auditor independence is “The Statement of Independence Concepts”, the auditor independence conceptual framework, including such issues as preparing standards regarding independence, resolving the conflicts in the absence of
proper standard and also introducing the effect of independency of auditor on the quality of auditing to users and interested parties. This statement can be used concerning preparing standards in addition to evaluating the process and procedure of auditing. It can be achieved through providing “definition”, “goal” and “related concepts” regarding auditor independence. Based on this statement, auditors will learn about the “risks”, “threats” and “safeguards” to independence.

Since we are going to test how effective is the compliance with the code of ethics regarding limitation and obligation in addition to recommendation made by regulators to protect independency, it should be mentioned that moral judgment can be based on rules or principles.

Regarding our thesis topic, i.e. doing research about the “effectiveness of safeguards in case of being legally enforceable in Iran”, we just mention the “safeguards” part of this statement. In this section it is acknowledged that safeguards can be in the form of obstacles, limitations, mandatory disclosures, policies and procedures, rules and regulations.

Based on the “Code of Ethics”, rendering non-audit services is prohibited (except for evaluating internal control and giving recommendation to the management for enhancing the function by mentioning the flaws). In this respect we can call them rules since Codes specify the details of services.

However, “auditor rotation” is not obligatory for all audit-client relationships, except for rendering audit services to listed companies. In this regard, those audit firms that render auditing services to the listed companies are allowed to extend their contracts only twice, which means they should rotate each three years (Articles of Association of Listed Companies). Otherwise, it is up to the audit firm to ensure that the firm is independent from client in long relationship (Code of Ethics). Accordingly, they can be known as the principles which allow the auditors’ professional judgment in case of being independence.
According to Dunn et al. (2003), “moral judgments are based rather on rules than on principle”. Based on different capacity of individuals regarding reasoning style, in order to measure this style we should consider the quality of those who are going to use principles in their “moral reasoning”. According to Dunn et al. (2003) “Some individuals prefer to deal with moral dilemmas by referring to rules, while others are more inclined to think in terms of principles”.

3.3. Theory of Legitimacy

“Legitimacy is a condition or status which exists when an entity’s value system is congruent with the value system of the larger social systems of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy” (Lindblom, 1994).

Before Lindblom (1994), there were a number of authors trying to offer various definitions of legitimacy but as suggested by Suchman (1995) these definitions have limitation. According to Suchman point of view this theory is not “adequately specific”. In this regard he discussed that researchers merely apply this theory rather than properly defining it.

He clarified this theory in this way: “Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995).

In this case Hybels (1995) also mentioned that “As the tradesmen [sic] of social science have grouped to build elaborate theoretical structures with which to shelter their careers and disciplines, legitimation has been a blind man’s hammer.”

On the other hand, researchers like Meyer and Scott (1983) revealed that legitimacy is stemming from congruence between the organization and its cultural environment. They believe that these are social expectations that determine legitimacy of an organization.
However cognitive side is more considered by these researchers than the evaluative side, implying that organizations are legitimate when they are comprehensible rather than being desirable.

Suchman (1995) proposed a clearer view of the value system to include norms, values, beliefs and definitions. Besides, there is a concept of legitimacy suggested by Deegan (2002) and accepted by several researchers believing that there is a social contract between a company and the society of which the company is a part. When an organization does not run its business in a legitimate manner, actions will be taken by communities to put at risk the corporation’s survival in addition to perceived sanctions. Scott (1995) called it “institutional legitimacy”.

Deegan (2002) took an example of boycott from the community: consumers downcutting or eliminating demand for the products of that company, suppliers stopping the provision of labor, financial capital and other resources to that business, or taxes and fines being increased and laws being imposed to prevent those activities which are not expected by the community. However, there is no exact and fixed form of such social contracts, and as a result those contracts might be explicit, implicit or not permanent. Gray et al (1996) in addition to Lindblomc (1994) mention that “the explicit terms of contracts are provided by legal requirements, while non-legislated societal expectations can be implied”. Besides, expectations from community change over time and depend on changes in economy, politics and culture. Therefore, legitimacy is such a dynamic concept as it changes continuously according to new demands of society.

In case of damaging the reputation and consequently the legitimacy of the organization, known as legitimacy crisis, there will be a litigation gap. Therefore, a trouble-shooting system should be considered. To fill or at least mitigate this gap, legitimatizing strategies should be put in place (Pattent, 1991). Lindblom (1994) mentioned that “To the extent that corporate performance does not reflect the expectations of the relevant public, a legitimacy gap exists” and he continued “difficulty in attracting human and financial
resources, difficulty in attracting purchasers for the corporation’s outputs, and legislative or regulatory action which the corporation may wish to avoid”.

On this issue, Lindblom (1994) provided some measures for legitimacy strategies. He pointed out a strategy including four different actions that are necessary to be taken in order to obtain and maintain legitimacy in organizations whenever legitimacy is put in peril. First of all, the organizations can inform “relevant public” regarding recent changes or can try to change those public opinions but not their behaviors. Then, they can try to turn the focus of public attention regarding the problem; otherwise, they need to be successful in “changing the people expectation” (Deegan, 2002). Lindblom believed that society is heterogeneous and in order to reflect this fact, he refers to the society as the “relevant public”.

3.4. Institutional Theory

While legitimacy theory advises organizations to work in a legitimate manner or in line with the communities’ values, norms, belief and definitions (Suchman, 1995), the institutional theory is to explain how such evaluation criteria is formed.

To express the “empirical organizational reality”, institutional theory accentuates the importance of historical and social context and focuses on organization through this context rather than rational choice basis (Powell and DiMaggio, 1991, Jepperson, 1991). That is the reason why many different influential institutions related to an organization exist and direct its actions.

In this regard, institutions are “patterns” that guide everyday tasks. In social context, institutional theory particularly is interested in regularities. By this we mean that the said perspective considers both “techno-rational” description and “social, normative and political” aspects (Orlikowski and Barley, 2001). Based on historical characteristic, institutions are perceived as persisting character of social life (Giddens, 1984).
Although this theory is based on what we know as Durkheim’s finding regarding “social fact”, according to Powell & DiMaggio (1991) this theory developed during the 60s and 70s. They basically tried to explain that under similar pressure, organizations act similarly and are “isomorphistic”.

The predominant themes, therefore, are mimetic process in addition to coercive and normative pressures that are externally put on organization by other institutions to change their performance and practice; each mechanism has its own ascendant root, derives from different situations and then results in different outcomes (DiMaggio and Powell, 1983). Isomorphism is “a constraining processes that forces one unit in a population to resemble other units that face the same set of environmental conditions” (DiMaggio and Powell, 1983).

However, there are critics about this view which consider organizations passive and unable to tolerate these institutional pressures (Scott, 2008). It should be mentioned that; although the “voluntary” and “involuntary” cannot thoroughly express social pressures, it can be assumed that involuntary approach can reflect coercive pressure and normative as well as mimetic pressure can show the voluntary approach.

Coercive pressure is described as “both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organization functions” (DiMaggio and Powell, 1983).

According to Meyer & Rowan (1991), to be sure about availability of economic resources and to be legitimate, organizations come along with the pressure which can be the result of regulations, law and legislations. In case of breach, there will be social sanctions. DiMaggio and Powell cited some examples of such pressures; for example, manufacturers use new technologies of controlling pollution to comply with the
environmental regulations or non-profits maintain accounts and hire accountants to meet tax law requirement.

*Mimetic pressure* is the result of uncertainty which can cause organization copy others in their field. According to Powell and DiMaggio (1983), “they model themselves on other organizations”. This imitating can be result of ambiguity in aims and strategies in addition to complexity and difficulty in finding the best solution. It can also be the result of poor knowledge. Although imitating the successful one can help you to be successful; however, other factors such as environment need to be considered as those are different for different organization in different social context. Acting in accordance with the best one, lets an organization seem to be under control (Scapens, 1994). Due to scarcity in successful model, it can be easy to predict models that are followed by emerging nations (DiMaggio and Powell, 1983).

*Normative pressure* can be exerted on an organization by professionals which may lead to the diffusion of their model regarding their methods, norms and values (DiMaggio and Powell, 1983). According to Abernethy and Chua (1999), the professional body determines and diffuses the set of acceptable norms and values for profession and makes them follow those rules. As these rules are prepared by powerful and knowledgeable group of professionals, others find themselves complying therewith.

In appearance, it seems that application of isomorphism of organizations is for the sake of development. However, DiMaggio and Powell (1983) found out that without evidence of internal organizational efficiency, institutional isomorphism can be processed for the reason of being rewarded. Processing institutional isomorphism means an organization becoming similar to others in many aspects, and the similarity thus making it easier for that organization to work with stakeholders.

In this research, the institutional theory was mentioned to explain the effectiveness of ethical rules in Iran.
3.5. Theory of Moral Development

According to Francis (1990), we should keep in mind the fact that the profession of accounting is a highly moral practice. Besides, the emphasis on “moral discernment” is due to consequences for practitioner. In this case, the specific behavior of the accountants and in particular the auditors, in responding to ethical dilemmas will be considered. In this research we are particularly going to find out the effect of complying with rules or principles in responding to ethical dilemmas.

Before going to the concept of moral reasoning, it is essential to understand the development of moral judgment of each auditor. The useful instrument in this regard is J.R. Rest’s Defining Issues Test (DIT). By this we are going to analyze the collected data to find out the moral reasoning style of Iranian auditor. Then we will be able to measure their tendency to reason regarding impairment of their independency (Dunn et al., 2003). Rest’s approach towards considering moral judgment development progress is somehow similar to Kohlberg’s process.

According to Rest, “cognitive” aspect of moral judgment is fundamental in studying the moral actions. To do so, we can apply a DIT P-score system ranging from zero to one, in order to examine the development of individuals’ interpretation of moral issues instead of interviewing with them. A higher DIT P-score means the ability to reason of a person at a higher stage of moral development.

Both Rest (1979) and Kohlberg (1976) agree on the progression from narrow “self-focused interpretation of moral issue which is “pre-conventional”, through an understanding of broader social world and associated group-based claims on moral decisions that is “conventional”, to a reliance on post conventional moral principle” (Thoma, 2006). As a result, we can test auditors` MRA through five ethical dilemmas.

As regards the auditors` examination of moral development that need to be considered by regulators, whenever auditors operate at the “pre-conventional level”, afterward they are
assumed to comply with rules and regulations according to their expediency (e.g. to avoid sanctions). Being at the conventional level, auditors sought to follow the rules and authority that constitute the base of their group norms. At the post conventional level they will move beyond rules and authority whenever according to their conscience they come to believe that they should do so (e.g. due to concern for social welfare or inspired by a sense of justice).

According to Ponemon and Gabhart (1990), in making decision on such ethical issues as independency, you will find auditors with “low P score, sensitive to penalties”. Relatively Arnold and Ponemon (1991) figure out higher P scores for internal auditors can reflect their tendency to “disclose sensitive audit findings”, regardless of client dissatisfaction. However, auditors with “low P score” in the event of limitation in time will report less (Ponemon, 1992).

Correspondingly other findings in this case include: positive relation between: “P score and responding to moral dilemmas” (Lampe and Finn, 1992), “higher P score and auditor consideration of client qualification in deciding on the audit risk and materiality” (Ponemon, 1993b), “MRA in addition to more experience and objectivity in litigation support role” (Ponemon, 1995), “higher P score and acting beyond the formal technical standards regarding independency and more than that considering the moral issues that are not specified by law” (Sweeney and Roberts, 1997). Ultimately, it has been found that respecting morality in an audit firm will be effective in facing client situation (Dunn et al., 2003).

Unlike the idea of increasing P score through offering more ethical training programs for accountants (Armstrong, 1993), Ponemon (1993a) mentioned that auditors’ morality will not enhance by attending a semester or ten weeks of ethical training (Dunn et al., 2003)
3.6. Development of hypothesis

Thus far we mentioned the theories we are going to refer to in presenting our hypothesis. To do so, we briefly emphasize on theories to discuss our hypothesis thereafter, and we will ultimately analyze them in later chapters.

Agency theory, profession theory, legitimacy theory and institutional theory (normative isomorphic)

Based on agency theory, an agent should be monitored by third party or by means of specific rules and regulations. According to profession theory, each member of profession should have a special qualification to be distinctive from others in society. Each group of professionals renders special services to society due to special knowledge they possess. The crucial role of auditors is “lending credibility” to what management claims, through their attestation. According to McDonald (1995), there are some distinguishing traits for professions including: practitioner should work according to ethical code and “society sanctions the enterprise”. According to Collins (1979), each group of professionals has its own strategies to achieve “certain social status”. Moreover, legitimacy theory suggest that acting appropriately according to the norms and values is what organizations should follow in running their business to be legitimate and avoid sanctions (Deegan, 2002). In addition to profession theory, the institutional theory also emphasizes on homogeneity among professionals and their organization. Based on normative isomorphism in institutional theory, professionals need to determine their values and norms, which are defined in their codes of ethics. To be homogeneous in this profession, the need to have detailed guideline, as it can be affected by culture or educational background and to do so we come to the following hypothesis:

**H1:** Auditor independence will be enhanced by following a rule-based as compared to a principles-based Code of ethics.
Legitimacy theory and institutional theory (coercive isomorphism)

According to the institutional theory, the coercive pressure, the influence of perception and legal system, which contain less detail in countries ruled by common law, through laws and regulations on ethical standards should be considered (DiMaggio and Powell, 1983). The point is in one hand that, a long auditor-client relationship is perceived to be leading to the auditors becoming permissive in their important role. Besides, the fact is that there will be concern regarding auditor’s independence from the client. On the other hand, there is a belief that new auditor doesn’t have the advantages of the previous one regarding the “client specific knowledge”; which will accordingly reduce the effectiveness of audit work (GAO, 2003). However, proponents of MAR argue that rotating auditors can bring a “fresh look” to the firm and can even enhance the quality of the audit task (ConferenceBoard, 2003). According to DeAngelo (1981), “economic dependency” has to be considered in audit-client relationship, which reflects the audit company’s desire to keep its client, specially the large and important one. Maintaining a large number of clients will reduce this economic dependency. The coercive force exerted from national laws, which reflect the auditors’ perception of that country, in addition to legitimate norms and beliefs of the public will form the ethical standards.

**H2:** Auditor's independence will be enhanced by considering mandatory audit rotation in the Code of ethics.

**H3:** Auditor's independence will be enhanced by prohibition of rendering specific non-audit services according to the Code of ethics.

**Moral reasoning ability**

Based on the research materials, we can consider the different level of MRA among nations with varied educational background, work experience, age, gender etc. However, in our research we are going to focus just on CPA members in Iran with different length
of membership. From the philosophical point of view, moral dilemmas are examined in terms of being “right” and “wrong” according to the external criterion that are the standards and regulations (Ruland and Lindblom, 1992). In case of empirical research; however, the focus is mainly on the “manner” of decision making. According to Poneman and Gabhart (1993), in comparison to general population auditors` mean P-score is low. Therefore, code of ethics is important to help auditors in addressing moral dilemmas. However, it should be mentioned that code need to be accepted rather than merely adhered (Preuss, 1998). According to Preuss “codes have to be complemented with developed ethical reasoning of accountants or auditors”.

**H4**: The level of independency of auditors who comply with the code of ethics is not similar due to the dependence of MRA of the individual auditor to the length of his/her work experience.
4. Empirical method

In this chapter you can find the empirical method including the research strategy before everything else, and then the sampling method will be clarified. We will thereafter present the questionnaire design and will, in addition, discuss the validity and reliability of our research.

4.1. Research strategy

To collect our data we ought to choose a method among proper ways of interviewing, and questionnaire was accordingly chosen. Since we had time limit for collecting the data, it was impossible to meet interviewee. As a result, we sent our questionnaires to them. Moreover, it was infeasible to send questionnaire to every individual auditor, since they are in different cities. However, we focused on professionals in the capital city where most of them live and work. In this regard we prepared the questionnaire in a way that will not take so much time to answer and made it possible for them to concentrate.

Questionnaire is a cheap and easily manageable tool for collecting data, while it is so hard in terms of designing and interpretation. In addition, it is capable of being made available to a wide range of respondents. To be able to statistically analyze the results, we needed to collect sufficient data merely through sending questionnaire. Furthermore, in order to be appropriate, questionnaire has to be prepared with so much consideration, in terms of its overall structure and specifically in terms of designing each question, in order to make it possible to gather precise data.

The appropriate designing and the effective use of questionnaire were other important steps towards reaching the aim of our research. In the first place, we needed to be sure about the qualification of the questionnaire by sending it to a number of professionals for verification purposes, which is called pilot test. We accordingly sent it to four people who were known as experts in auditing. Although they were experienced and well educated, they were not familiar with thesis. So we had to make it suitable and appropriate.
4.2. Sampling

The first step was to determine the statistical population, i.e. the Iranian auditors in our case. After that, we should define a sample that would be representative of the whole population. In this regard we had to ensure that the sample (or subset) was the exact representative of the whole population, since we were going to generalize the result. Our sample included those professionals who are a member of the Iranian Association of Certified Public Accountants – IACPA.

There are two approaches known as probability and non-probability approaches in determining the sampling method. “System random sampling” is the appropriate method based on probability sampling. In this method, we prepared a list of our items. Then we chose one item at first, determined the intervals and accordingly chose others based on adding those intervals to choice number.

We did our research on the basis of non-probability sampling, since a list of all members was not available. By contacting the institute, we could locate 100 of them who were in Tehran. So in comparison to systematic sampling, our procedure was a “convenient” one, since there was no equal chance for everybody in population. We will discuss the process later in this chapter.

**Sampling information**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit firm</td>
<td>234</td>
</tr>
<tr>
<td>Total CPA</td>
<td>1789</td>
</tr>
<tr>
<td>Chosen sample</td>
<td>100</td>
</tr>
<tr>
<td>Mailing failed</td>
<td>12</td>
</tr>
<tr>
<td>Total sample</td>
<td>88</td>
</tr>
<tr>
<td>Received replies</td>
<td>88</td>
</tr>
</tbody>
</table>
We expected to receive completed questionnaires from at least 80 percent of the respondents as we tried to choose those who were more available and were able to respond.

4.3. Questionnaire design

The questionnaire was prepared in English and then translated to Farsi (the Iranians native language). Although IACPA’s members are generally familiar with English, to avoid misreading and misinterpreting (Saunders et al., 2007) we preferred to send the Farsi version to the respondents.

According to Babbie (2004) and Saunders (2007), there are two types of questionnaires: ‘self-administered’ and ‘interviewer-administered’. In the former the respondents fill the questionnaires by themselves, while in the latter they are filled by the interviewer. Since we sent the questionnaires by email, our approach was self-administered.

The questionnaire consists of two parts. In the first part, the respondents mention the type as well as the length of their membership. The second part contains five ethical dilemmas in order to examine the effectiveness of adhering to the codes, specific rules and principles.

In designing the questionnaire, we considered and read the “Ethical Dilemmas for Auditors, discussion paper 2006” which was prepared by ICPAI as a model to shape our own one. In this regard, we designed five dilemmas that should be answered by choosing the numbers 1 to 7 of 7 Likert-scale, which reflects that the auditors’ independence is not impaired if 1 is chosen, and that the auditors’ independence is impaired if 7 is chosen. As it was mentioned earlier, the questionnaires were sent and returned by email.
4.3.1. Variables

The first part of the questionnaire informs us about the respondents’ background and length of membership that can reflect the respondent’s work experience too. In the second part, the respondents will envisage the ethical dilemmas to be tested according to their beliefs and attitudes. Those variables are behavioral in nature, which are used as independent or dependent ones. According to Bryman and Bells (2003), those are measured accordingly through the range of impairment as opposed to non-impairment.

4.3.1.1. Dependent variables

As mentioned in chapter one, the role of auditor is to lend credibility to the financial reporting, as the fundamental trait that makes them look independent. As a result, in order to measure the ethical characteristic of auditors, it is essential to focused on independency. Therefore, these ethical dilemmas will investigate their influence on the auditor’s independence. Some of the perceived situations reflect the requirements of codes of ethics in addition to the effectiveness of it. So the answers will show the responsiveness of auditors to the determined solution by law to possible dilemmas.

Except for dilemma number four, higher scale reflects more quality of awareness of auditors. By choosing 4, they express neutrality. Ultimately we will explain the level of effectiveness of codes on auditors’ daily work through their awareness of ethical rules and principles.

The perceived ethical dilemmas are going to examine the safeguards to two threats to independency. The first three situations reflect familiarity threats through long audit-client relationship, while the last two ones express self-review threat as a result of rendering non-audit services. Those threats can be distinguished as important ones in audit market in Iran.
4.3.1.2. Independent variables

According to our questionnaire our independent variables are: code of ethics, MAR and prohibition of NAS in addition to length of IACPA’s membership, which will be examined further.

Ethical Dilemmas 1, 2 & 3:

*If rotation for audit firms concerning listed company were 5 years instead of current rules (in Iran it is 3 years now).*

According to codes of ethics and specifically for listed companies, the auditor’s independence will be under threat due to long audit-client relationship. So the perceived safeguard is Mandatory Audit Rotation every three years. Through this situation we are going to test the effectiveness of rule-based codes according to auditors’ perception on enhancing auditor independence according to specified detail. In addition, the fact is that long relationship can cause familiarity threat to independency. Consideration of new action regarding reducing the number of years of auditor-client relationship will lead to end a lot of business relations. These results cannot, however, be extrapolated to other countries due to the differences in cultural and institutional environment.

*We have been rendering audit services to one of our clients (not listed company) for almost 10 years. To maintain independence, we rotate merely those who work in audit engagement team every 5 or 6 years (not the leader or partners).*

In this situation, like the previous one, the force of law to rotate audit firm for listed companies, and not for others, is considered regarding familiarity threat. As a principle in code of ethics, it is up to the audit firms themselves to decide and judge the possible
threat to independence. So we can find out that how many of auditors believe this consideration has meaningful influence on their independency.

If one of our clients (listed company) intends to extend the contract, it would be better that making the decision could be left to us as a reputed and professional firm.

This dilemma reflects one of the rules in code of ethics. By designing this dilemma, we are going to test whether auditors find it useful and effective or not. We mentioned that they can use their own professional judgment in this regard to reflect the feasibility of following principle instead of strict rules. Moreover, the familiarity threat is going to be considered in this situation which can cause the auditor to be aligned with the client’s interest.

**Ethical dilemmas 4 & 5:**

Since we have specific knowledge about one of our clients, that company was eager to hire us for “management advisory” services. However, we have to refuse since rendering these services and audit services at the same time are legally banned.

In this dilemma self-review threat is considered which will happen as a result of rendering non-audit services. According to code of ethics, audit firms are banned from rendering some of non-audit services simultaneously. Rendering “management services” is among them. In this regard, we are going to test the effectiveness of this rule through this ethical dilemma.

In addition to audit services, we are going to design the accounting system for one of our clients. Based on contract, deciding about the content of the program and running the system is our responsibility.
Similar to the previous dilemma, this one also refer to a rule in code of ethics, according to which the audit firms can provide accounting system designing in the event that assurance is made to the fact that the manager is responsible for that. We can test the effectiveness of this rule through examining its effect on the auditor’s independence.

4.4. Limitation of questionnaire

Like any other research, this thesis suffers from some deficiency due to the methods as well as the raw material and data collected for analysis. First of all, the questionnaire was piloted by professionals who were not familiar with thesis. So it may not embrace all the possible aspects related to the topic. Moreover, it may not conform to the appropriate model by just modifying the ICPIA discussion paper. In addition, using non-probability approach instead of systematic random sampling, as already mentioned, which was caused by time restriction not allowing contacts with every possible respondents and finally the unavailability of professionals, may have adversely affected the reliability. However, we hope that these deficiencies will not have a significant impact on our research.

4.5. Validity and Reliability

According to Hoepfl (1977) “logical positivism and quantitative research” need to measure and analyze the casual relation between variables since researchers in this event believe in observability and measurability of facts.

In conducting a research, we need to use appropriate proper methodology, collect appropriate data and finally use a suitable analysis system and statistics. To do so, we should consider the validity of process that can be one of the four types of validity. In each research we must mention the validity of our study specifically. According to Cook
and Campbell (1996) each type of validity may be accompanied by threats to research due to the problem that they cause. They include: statistical conclusion, internal construct and external validity in research.

Based on Statistical Conclusion Validity, there is relation between a “good statistical conclusion validity” and “related variables and proper correlation between variables”. In case of avoiding the use of a diverse groups, the result of statistical analysis will be validated. Since our sample was big enough we did not face such problem, as a small-size sample is another problem in this regard.

Applying Internal Validity is not related since that is suitable whenever variables have cause and effect relation in addition to continuing this relationship over the time. Regarding External Validity, since the result should be generalized to other people in other time and place, it is not proper for our purpose. However, in case of Construct Validity we need to consider the casual relationship between the construct of our variables which can be possible through appropriate measurement of our variables in addition to defining our hypothesis in the best way.

As Watling mentioned, “Reliability and validity are tools of an essentially positivist epistemology.”(p. 7). Joppe (2000) also explains it as:

…The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. (p. 1)

Reliable and consistent result is essential for every research that can be achieved through repeating research for several times. According to Bryman and Bell (2005) in preparing our questionnaire we should consider “stability which can be examined through test-retest (Charles, 1995), internal reliability and also inter-observer consistency”.

In other words, Kirk and Miller (1986) defined reliability in quantitative research. Firstly, consistency of result of several measurements, secondly as stability and finally as
similarity of measurement. Stability in measurement will bring similarity in result. In case of test-retest, some researchers notify the possibility of error regarding changes in attitude or behavior of respondents that can lead to the inaccuracy of measurement. Furthermore, according to Crocker and Algina (1986): "test developers have a responsibility of demonstrating the reliability of scores from their tests" (p. 106).
5. Statistical analysis

In this chapter the statistical process and the correlation between the variables will be presented. In addition, we will test our hypothesis, and the result of the statistical analysis will be finally described.

5.1 Respondents` Background

As mentioned earlier, we chose and selected 100 respondents from among the members of IACPA with of 8 to 10 years of membership (IACPA has been founded 2010). Eighty eight of them sent us their responses.

<table>
<thead>
<tr>
<th>Type of Membership</th>
<th>Population</th>
<th>Percentage</th>
<th>Number of sampling</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Freelance accountants</td>
<td>179</td>
<td>10</td>
<td>11</td>
<td>0.13</td>
</tr>
<tr>
<td>2 Accountants who are partner in any of the 234 auditing firms that are organized in the accountants` professional association</td>
<td>888</td>
<td>5</td>
<td>50</td>
<td>0.57</td>
</tr>
<tr>
<td>3 Auditors who are member of the Auditing Organization</td>
<td>252</td>
<td>0.14</td>
<td>24</td>
<td>0.27</td>
</tr>
<tr>
<td>4 Unemployed auditors</td>
<td>470</td>
<td>0.26</td>
<td>3</td>
<td>0.03</td>
</tr>
<tr>
<td>total</td>
<td>1789</td>
<td>1</td>
<td>88</td>
<td>1</td>
</tr>
</tbody>
</table>

5.2 Question description

In the table below you can find minimum and maximum scores that were chosen by respondents, in addition to the mean, median and standard deviation as well as the number of respondents. It seems that median will serve our purpose better than mean.
Based on the next table we are going to demonstrate the scoring result to our perceived ethical dilemmas. As you can see the respondents were supposed to choose scores between the minimum 1, which represents that the situation where their independency will not impaired, while and the maximum 7 reflects the impairment of independency.

Actually the ethical dilemma mentioned in question 5, has the highest mean and median values, i.e. 6.66 and 7 respectively. The standard deviation for that question is 0.96. In case of the lowest mean and median values, the ethical dilemma relating to question 4 has the lowest one which is 1 for both of them. The point is that all the respondents have answered this question in the same way. Accordingly, the standard deviation is zero in this case.

As it was mentioned, the mean length of experience of respondents as a member of IACPA, is 9.47. According to following table, the standard deviation is 0.68.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number</th>
<th>Min</th>
<th>Max</th>
<th>Median</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question 1</td>
<td>88</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1.98</td>
<td>0.96</td>
</tr>
<tr>
<td>Question 2</td>
<td>88</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>3.56</td>
<td>1.02</td>
</tr>
<tr>
<td>Question 3</td>
<td>88</td>
<td>4</td>
<td>6</td>
<td>5</td>
<td>5.06</td>
<td>1.72</td>
</tr>
<tr>
<td>Question 4</td>
<td>88</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Question 5</td>
<td>88</td>
<td>4</td>
<td>7</td>
<td>7</td>
<td>6.66</td>
<td>0.96</td>
</tr>
<tr>
<td>Experience</td>
<td>88</td>
<td>8</td>
<td>10</td>
<td>10</td>
<td>9.47</td>
<td>0.68</td>
</tr>
</tbody>
</table>
The next table presents the way of answering the question. The results are depicted by pie-charts.

<table>
<thead>
<tr>
<th>Question</th>
<th>choice</th>
<th>frequency</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>1</td>
<td>41</td>
<td>46.59</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>8</td>
<td>9.09</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>39</td>
<td>44.32</td>
</tr>
<tr>
<td>Q2</td>
<td>2</td>
<td>7</td>
<td>7.95</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>52</td>
<td>59.09</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>2</td>
<td>2.27</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>27</td>
<td>30.68</td>
</tr>
<tr>
<td>Q3</td>
<td>4</td>
<td>20</td>
<td>22.73</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>43</td>
<td>48.86</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>25</td>
<td>28.41</td>
</tr>
<tr>
<td>Q5</td>
<td>4</td>
<td>10</td>
<td>11.36</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>78</td>
<td>88.64</td>
</tr>
</tbody>
</table>

As it is noticed, we did not mention the question 4, since all the respondents replied in the same way. To produce this information and the rest of analysis, we used SAS (Statistical Analysis System).
5.3 Hypothesis Testing and Linking to Questions

In this part we present our findings based on analysis of questionnaire. The tables below are applied for the first three hypotheses regarding our questions.

**H1:** Auditor’s independence will enhance by following a rule-based in comparison to principles-based code of ethics.

In hypothesis 1, we were going to investigate the influence of the components of Code of ethic. Since there are both specific rules and principles included in the Code of Ethics, in case of ethical issue we want to test the possible differences between applying rules or principles whenever encountering ethical dilemmas. In this regard we need to test questions one by one.

**Question 1** regarding the effectiveness of detailed rule, i.e. rule-based code, is going to test whether the change in this specific item in code of ethics can impair the auditor’s independence.

However, this rule is merely for listed companies. Since most of the clients related to the respondents are not listed companies, it can be assumed that in case of other clients this is perceived as principle. We determined that even if the auditors would select 5, 6 or 7, this will reflect the importance of the law as perceived by the respondent and as such his adherence to this rule can be effective on enhancing the auditors’ independence. According to analysis of responses to question 1 the tables below reflect the result.

However collected data revealed that not only no one chose those scores, but also the responses were between 1 and 3, resulting in a P-value is less than 0.05. According to the tables related to the question 1, in addition to table below, it can be interpreted that according to the auditors’ perception of mandatory auditor rotation, the principle-based rule will be more effective.
**Question 2** mainly focuses on the fact that in the event of auditing not-listed clients, audit firms do not follow specific rules regarding the mandatory auditor rotation, because on the basis of code of ethics, it is up to the audit firm to make sure their firm is independent. The proper answer to prove our hypothesis 1 has been determined to be between 5 and 7, which reflect adhering to the principles instead of rules can impair their independency.

According to table below, it can be interpreted that as perceived by the majority of auditors, acting in accordance with the auditors’ professional judgment will not impair independency. In other words, they don’t believe in effectiveness of specific rules in case of mandatory auditor rotation.

<table>
<thead>
<tr>
<th>Location Counts: Mu0=5.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
</tr>
<tr>
<td>Num Obs &gt; Mu0</td>
</tr>
<tr>
<td>Num Obs ^= Mu0</td>
</tr>
<tr>
<td>Num Obs &lt; Mu0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quantiles (Definition 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantile</td>
</tr>
<tr>
<td>100% Max</td>
</tr>
<tr>
<td>99%</td>
</tr>
<tr>
<td>95%</td>
</tr>
<tr>
<td>90%</td>
</tr>
<tr>
<td>75% Q3</td>
</tr>
<tr>
<td>50% Median</td>
</tr>
<tr>
<td>25% Q1</td>
</tr>
<tr>
<td>10%</td>
</tr>
<tr>
<td>5%</td>
</tr>
<tr>
<td>1%</td>
</tr>
<tr>
<td>0% Min</td>
</tr>
</tbody>
</table>
Then we came to Question 3 that is going to test the effectiveness of rules in the code of ethics as regards MAR. Based on our aim of designing this question, we expected that respondents would choose the scores between 5, 6 and 7. This will test whether specific rule can be influential in improving the auditors’ independence. Based on our analysis, the following result was achieved:

<table>
<thead>
<tr>
<th>Count</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Num Obs &gt; Mu0</td>
<td>25</td>
</tr>
<tr>
<td>Num Obs ^= Mu0</td>
<td>45</td>
</tr>
<tr>
<td>Num Obs &lt; Mu0</td>
<td>20</td>
</tr>
</tbody>
</table>

According to the responses, the P-value is more than 0.05 suggesting that the respondents agreed that this situation will impair the auditor independence.

In analysis of Question 4, it was supposed that auditors would select the scores 1, 2 or 3. Based on the fact that the code of ethics prohibits rendering some specific non-audit services, it is, therefore, understood that all the respondents found NAS essential in enhancing the auditor’s independence. In view of this result, we can confidently conclude that the rule-based code is effective in this way.

In analyzing Question 5, like question 4, we were going to test a specific rule included in the code of ethics regarding rendering NAS. Therefore, we expected that auditors would choose one of the scores of 5, 6 or 7. The table below presents the received responses.

<table>
<thead>
<tr>
<th>Count</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Num Obs &gt; Mu0</td>
<td>78</td>
</tr>
<tr>
<td>Num Obs ^= Mu0</td>
<td>88</td>
</tr>
<tr>
<td>Num Obs &lt; Mu0</td>
<td>10</td>
</tr>
</tbody>
</table>
According to the next table, the majority of respondents selected 7, which reflects that this situation will impair the auditor’s independence.

<table>
<thead>
<tr>
<th>Quantile</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% Max</td>
<td>7</td>
</tr>
<tr>
<td>99%</td>
<td>7</td>
</tr>
<tr>
<td>95%</td>
<td>7</td>
</tr>
<tr>
<td>90%</td>
<td>7</td>
</tr>
<tr>
<td>75% Q3</td>
<td>7</td>
</tr>
<tr>
<td>50% Median</td>
<td>7</td>
</tr>
<tr>
<td>25% Q1</td>
<td>7</td>
</tr>
<tr>
<td>10%</td>
<td>4</td>
</tr>
<tr>
<td>5%</td>
<td>4</td>
</tr>
<tr>
<td>1%</td>
<td>4</td>
</tr>
<tr>
<td>0% Min</td>
<td>4</td>
</tr>
</tbody>
</table>

To sum it up, hypothesis 1 is falsified.

**H2: Auditor’s independence will be enhanced by considering mandatory audit rotation in the Code of ethics.**

Basically, we expected the respondents to choose the scores that reflect the impairment of auditor independency to prove our hypothesis. We will discuss the situations in this regard.

**Analysis of Question 1**

As we mentioned in previous hypothesis, to be specifically clarified by law regarding the mandatory rotation of auditors, will not enhance the level of independency according to auditors’ perception. However, as it is clear, we changed 3 years to 5 years, which is not a significant difference. According to P-value in this situation based on the analysis of responses, auditors believe that this situation will not impair the auditor’s independence.

**Analysis of Question 2**
Based on the foregoing explanations as well as the consideration of P-value, it is assumed that the auditors believe that, as far as not-listed clients are concerned, this situation will not impair their independency. So they don’t seek to be rotated for improving this trait.

**Analysis of Question 3**

Finally in this question, one of the unusual facts is that auditors, regardless of their choice in question 1, believe that there should be specific rule for auditors’ rotation in case of listed client. The point is that they may seek to extend their relationship to more than 3 years in order to become fully acquainted with the client’s business, but not for such a long time.

So **hypothesis 2 is falsified.**

**H3: Auditor’s independence will be enhanced by prohibition of rendering specific non-audit services according to Code of Ethics.**

According the code of ethics, rendering certain non-audit services is prohibited by rules. Therefore, we were going to test the influence of this rule on auditor’s independence based on auditor perception.

**Analysis of Question 4**

As is was mentioned before, all the respondents chose score 1 which reflects the fact that prohibition of rendering management services and audit services simultaneously will reduce the auditor’s independence.

**Analysis of Question 5**

According to our findings, as the majority of respondents selected the score 7, it clearly suggests that rendering the mentioned non-audit services will impair independency.

Accordingly, **hypothesis 3 is not falsified.**
**H4:** The level of independency of auditors who comply with the code of ethics is not similar due to the dependence of MRA on the length of the work experience.

Analysis of Question 1

In the next table we present the result of analysis of the effect of the length of the membership on the behavior of the auditor in dealing with ethical dilemmas. According to our objective, there were three different groups with 8, 9 and 10 years length of membership who answered this question. However, they just chose between 1 and 3 scores for question 1. Then the data was analyzed using Chi-Square test as below:

<table>
<thead>
<tr>
<th>Year</th>
<th>The FREQ Procedure</th>
<th>Q1(1)</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Frequency</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>9</td>
<td>10.23</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>5.68</td>
<td>2.27</td>
<td>2.27</td>
<td>10.23</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Raw Pct</td>
<td>55.56</td>
<td>22.22</td>
<td>22.22</td>
<td>10.23</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Col Pct</td>
<td>12.2</td>
<td>25</td>
<td>5.13</td>
<td>10.23</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Frequency</td>
<td>18</td>
<td>0</td>
<td>11</td>
<td>29</td>
<td>32.95</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>20.45</td>
<td>0</td>
<td>12.5</td>
<td>32.95</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Raw Pct</td>
<td>62.07</td>
<td>0</td>
<td>37.93</td>
<td>32.95</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Col Pct</td>
<td>43.9</td>
<td>0</td>
<td>28.21</td>
<td>32.95</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Frequency</td>
<td>18</td>
<td>6</td>
<td>26</td>
<td>50</td>
<td>56.82</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>20.45</td>
<td>6.82</td>
<td>29.55</td>
<td>56.82</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Raw Pct</td>
<td>36</td>
<td>12</td>
<td>52</td>
<td>56.82</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Col Pct</td>
<td>43.9</td>
<td>75</td>
<td>66.67</td>
<td>56.82</td>
<td></td>
</tr>
</tbody>
</table>

As it is mentioned in table we couldn’t reach to our purpose, we did Fisher’s Exact Test. Accordingly we found that the $P_v <= P$ ($P= 0.05$). In this situation the small P-value base on analysis shows that h1 is accepted and there is correlation between the lengths of experiences and answering the question.
In analysis question 2 in case of this hypothesis as it is obvious the respondents scoring from 2 to 5 with dispersion base on table below. In case of using Chi-Square we come to decision as below:

<table>
<thead>
<tr>
<th>year</th>
<th>Q2(Q2)</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Frequency</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>0</td>
<td>5.68</td>
<td>0</td>
<td>4.55</td>
<td>10.23</td>
</tr>
<tr>
<td></td>
<td>Row Pct</td>
<td>0</td>
<td>55.56</td>
<td>0</td>
<td>44.44</td>
<td>10.23</td>
</tr>
<tr>
<td></td>
<td>Col Pct</td>
<td>0</td>
<td>9.62</td>
<td>0</td>
<td>14.81</td>
<td>10.23</td>
</tr>
<tr>
<td>9</td>
<td>Frequency</td>
<td>4</td>
<td>15</td>
<td>1</td>
<td>9</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>4.55</td>
<td>17.05</td>
<td>1.14</td>
<td>10.23</td>
<td>32.95</td>
</tr>
<tr>
<td></td>
<td>Row Pct</td>
<td>13.79</td>
<td>51.72</td>
<td>3.45</td>
<td>31.03</td>
<td>58.73</td>
</tr>
<tr>
<td></td>
<td>Col Pct</td>
<td>57.14</td>
<td>28.85</td>
<td>50</td>
<td>33.33</td>
<td>58.73</td>
</tr>
<tr>
<td>10</td>
<td>Frequency</td>
<td>3</td>
<td>32</td>
<td>1</td>
<td>14</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>3.41</td>
<td>36.36</td>
<td>1.14</td>
<td>15.91</td>
<td>56.82</td>
</tr>
<tr>
<td></td>
<td>Row Pct</td>
<td>6</td>
<td>64</td>
<td>2</td>
<td>28</td>
<td>58.82</td>
</tr>
<tr>
<td></td>
<td>Col Pct</td>
<td>42.86</td>
<td>61.54</td>
<td>50</td>
<td>51.85</td>
<td>58.82</td>
</tr>
<tr>
<td>Total</td>
<td>Frequency</td>
<td>7</td>
<td>52</td>
<td>2</td>
<td>27</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>7.95</td>
<td>59.09</td>
<td>2.27</td>
<td>30.68</td>
<td>100</td>
</tr>
</tbody>
</table>

As a result we did the Fisher Exact Test accordingly. Due to that test we come to result as below:

<table>
<thead>
<tr>
<th>Statistic</th>
<th>DF</th>
<th>Value</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>6</td>
<td>3.759</td>
<td>0.7092</td>
</tr>
<tr>
<td>Likelihood Ratio Chi-Square</td>
<td>6</td>
<td>4.395</td>
<td>0.6234</td>
</tr>
<tr>
<td>Mantel-Haenszel Chi-Square</td>
<td>1</td>
<td>0.567</td>
<td>0.4515</td>
</tr>
<tr>
<td>Phi Coefficient</td>
<td></td>
<td>0.207</td>
<td></td>
</tr>
<tr>
<td>Contingency Coefficient</td>
<td></td>
<td>0.202</td>
<td></td>
</tr>
<tr>
<td>Cramer’s V</td>
<td></td>
<td>0.146</td>
<td></td>
</tr>
</tbody>
</table>

WARNING: 58% of the cells have expected counts less than 5. Chi-Square may not be a valid test.

In testing this question, the P-value was more than 0.05 which means the responses were independent of the respondents’ length of membership.

Then we came to question 3. As we demonstrated in the table, the respondents selected 4, 5 and 6 scores for this question. Like the other question we proceeded as follows:
Then we conducted the Fisher’s Exact test to find the correlation between the length of membership and the responses to this question. Based on a P-value higher than 0.05, we come to the conclusion that the length of membership has no relation to the responses to this question.

To test question 4 base on the effect of length of membership we found that every single respondents choose score number 1. So it is obviously there isn’t any relation between these factors.

In testing the question 5 the same procedure was used to come to the fact that since the P-value is more than 0.05, there isn’t any correlation between the length of membership and answering the questions. He tables are provided as below:

<table>
<thead>
<tr>
<th>Statistic</th>
<th>DF</th>
<th>Value</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>4</td>
<td>2.763</td>
<td>0.5982</td>
</tr>
<tr>
<td>Likelihood Ratio Chi-Square</td>
<td>4</td>
<td>2.4248</td>
<td>0.6582</td>
</tr>
<tr>
<td>Mantel-Haenszel Chi-Square</td>
<td>1</td>
<td>1.0637</td>
<td>0.3024</td>
</tr>
<tr>
<td>Phi Coefficient</td>
<td></td>
<td></td>
<td>0.1772</td>
</tr>
<tr>
<td>Contingency Coefficient</td>
<td></td>
<td></td>
<td>0.1745</td>
</tr>
<tr>
<td>Cramer’s V</td>
<td></td>
<td></td>
<td>0.1253</td>
</tr>
</tbody>
</table>

WARNING: 33% of the cells have expected counts less than 5. Chi-Square may not be a valid test.
As it can be seen from the table below, except for question 1, the rest of the questions show that the length of auditors` membership in IACPA cannot affect their judgment in dealing with ethical dilemmas according to the code of ethics. Although based on our finding, the hypothesis 4 is falsified, the point is that the range of the numbers representing the length of experience was not high enough. The institute has been founded 10 years ago and the majority of the members have joined in the first year.

<table>
<thead>
<tr>
<th>Table of year by Q5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>year</strong></td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>11.36</td>
</tr>
</tbody>
</table>

As it can be seen from the table below, except for question 1, the rest of the questions show that the length of auditors` membership in IACPA cannot affect their judgment in dealing with ethical dilemmas according to the code of ethics. Although based on our finding, the hypothesis 4 is falsified, the point is that the range of the numbers representing the length of experience was not high enough. The institute has been founded 10 years ago and the majority of the members have joined in the first year.

<table>
<thead>
<tr>
<th>Fisher's Exact Test</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table Probability(P)</td>
<td>6.35E-05</td>
<td>0.001</td>
<td>0.0015</td>
<td>0.1158</td>
<td></td>
</tr>
<tr>
<td>P &lt; P</td>
<td>0.0304</td>
<td>0.7312</td>
<td>0.6421</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>
As it is seen, the summary of our finding is as below:

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Auditor’s independence will be enhanced by following a rule-based as compared to the principles-based Code of Ethics.</td>
<td>Falsified</td>
</tr>
<tr>
<td>H2: Auditor’s independence will be enhanced by considering mandatory audit rotation in Code of Ethics.</td>
<td>Falsified</td>
</tr>
<tr>
<td>H3: Auditor’s independence will be enhanced by prohibition of rendering specific non-audit services according to Code of ethics.</td>
<td>Not Falsified</td>
</tr>
<tr>
<td>H4: Level of independency of auditors who apply the code of ethics is not similar due to the dependence of MRA on the length of work experience.</td>
<td>Falsified</td>
</tr>
</tbody>
</table>

Refer to Appendix for the rest of the tables.
6. Conclusion

6.1. Summary

Our primary goal in this thesis is to test the effectiveness of code of ethic regarding MAR and prohibition of NAS as perceived by the Iranian auditors with varying lengths of membership in IACPA. The overall result indicates that obligation and limitation in code of ethics is not influential in the auditor’s behavior in dealing with various situations involving ethical dilemmas. The main finding of the quantitative study which was complemented by sending questionnaires to CPA member auditors to assess their perception as regards the effectiveness of ethical principles and rules in their professional careers is as below:

One hypothesis out of four was not falsified, while the other three were falsified. The first hypothesis discussing the assumption that the rule-based characteristic of code of ethics can be influential in enhancing the auditor’s independence was based on agency, profession, legitimacy and institutional theories (normative isomorphism). However, the result doesn’t strongly support this assumption. In case of second hypothesis, which is based on legitimacy and institutional theories (coercive isomorphism), as mentioned earlier, Mandatory Auditor Rotation as a specific rule in code of ethics can improve auditor’s independence. Although the result doesn’t show the exact alignment with the hypothesis, it can be effective in case of listed clients and there is a weak signal for not being falsifying.

Hypothesis three is the only one which is not falsified. Accordingly, it is assumed that prohibition of rendering some specific non-audit rotation will enhance the independency. This hypothesis is also based on the legitimacy and institutional theories (coercive). The
last hypothesis that is going to test the effect of length of membership in IACPA on solving ethical dilemmas on the basis of the code of ethics cannot be clearly generalized as the range of experience of respondents as a members of IACPA was not high enough. However, according to our findings this hypothesis is also falsified based on the auditor perception.

6.2. Implication

Due to the recent scandals, it is assumed that rule-based codes, unlike the accounting standards, can be more effective in comparison to the principle-based ones as far as the ethical standards are concerned. However, unlike the specific rules for auditing the listed companies, there are principles regarding ethical issue in auditing not-listed ones.

Concerning our thesis the fact is there are a few research about the auditor perception regarding their independency in Iran. Although the Iranian Code of Ethics is translation of the international one, however it can be seen differently due to differences in applying the code and legislation in Iran.

6.3. Criticism

A research can hardly be devoid of limitation and deficiency and the present research is not an exception. The main point which should be mentioned is that the preparation of questionnaire needed more professional guidance of which were deprived. Accordingly, the Coronbach’s Alfa was not satisfying enough. The other aspect that needs to be considered is the sampling which contains only the available respondents instead of being selected through systematic random sampling.

We should add that there were some other possible factors which may affect the auditor’s independence such as the audit firm size, the audit and non-audit fee ratio etc., that can be
tested in this regard; however since the related information are not released in Iran, they were not included in our research.

Regardless of these deficiencies, it was worthwhile focusing on Iran, which has not been considered before, while is also familiarizes the reader with the Iranian code of ethics.

6.4. Further research

Many other research projects may be conducted on several aspects of the fundamental requirements of audit profession in terms of ethical issues. One possible research can be a comparison of Iran with such other countries as U.S. or U.K. In view of different legal systems and cultures, it can be interesting to evaluate the difference in auditors` perception in this respect.

Secondly there are possible related theories which can be considered in such research. Accordingly, our current hypothesis can be tested in the light of those theories to see if they are falsified on that event. And finally it is important to consider the related researches to see whether they have also come to the same conclusion in order make sure about the validity of our findings.
References

CITRON, D. B. 2003. The UK’s framework approach to auditor independence and the commercialization of the accounting profession. Accounting, Auditing & Accountability Journal, 16, 244-274.


FEE 2004. Mandatory Rotation of Audit Firms (Study by the FEE, Fédération des Experts Comptables Européens, October 2004). FEE.


IAASB 2009. ISA200.


## Appendix 1 - Tables

### Question 1

<table>
<thead>
<tr>
<th>Moments</th>
<th>N: 88</th>
<th>Sum Weights: 88</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>1.9772727</td>
<td><strong>Sum Observations</strong></td>
</tr>
<tr>
<td><strong>Std Deviation</strong></td>
<td>0.9586541</td>
<td><strong>Variance</strong></td>
</tr>
<tr>
<td><strong>Skewness</strong></td>
<td>0.0460904</td>
<td><strong>Kurtosis</strong></td>
</tr>
<tr>
<td><strong>Uncorrected SS</strong></td>
<td>424</td>
<td><strong>Corrected SS</strong></td>
</tr>
<tr>
<td><strong>Coeff Variation</strong></td>
<td>48.483658</td>
<td><strong>Std Error Mean</strong></td>
</tr>
</tbody>
</table>

### Question 2

<table>
<thead>
<tr>
<th>Moments</th>
<th>N: 88</th>
<th>Sum Weights: 88</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>3.5568</td>
<td><strong>Sum Observations</strong></td>
</tr>
<tr>
<td><strong>Std Deviation</strong></td>
<td>1.0155</td>
<td><strong>Variance</strong></td>
</tr>
<tr>
<td><strong>Skewness</strong></td>
<td>0.516</td>
<td><strong>Kurtosis</strong></td>
</tr>
<tr>
<td><strong>Uncorrected SS</strong></td>
<td>1203</td>
<td><strong>Corrected SS</strong></td>
</tr>
<tr>
<td><strong>Coeff Variation</strong></td>
<td>28.55</td>
<td><strong>Std Error Mean</strong></td>
</tr>
</tbody>
</table>

### Basic Statistical Measures

<table>
<thead>
<tr>
<th>Location</th>
<th>Variability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>3.5568</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>3</td>
</tr>
<tr>
<td><strong>Mode</strong></td>
<td>3</td>
</tr>
<tr>
<td><strong>Interquartile Range</strong></td>
<td>2</td>
</tr>
</tbody>
</table>
**Question 3**

<table>
<thead>
<tr>
<th>Tests for Location: Mu0=5</th>
<th>Test</th>
<th>Statistic</th>
<th>p Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Student's t</td>
<td>t</td>
<td>0.743459</td>
</tr>
<tr>
<td></td>
<td>Sign</td>
<td>M</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>Signed Rank</td>
<td>S</td>
<td>57.5</td>
</tr>
</tbody>
</table>

**Question 5**

<table>
<thead>
<tr>
<th>Moments</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>88</td>
<td>Sum Weights</td>
</tr>
<tr>
<td>Mean</td>
<td>6.659091</td>
<td>Sum Observations</td>
</tr>
<tr>
<td>Std Deviation</td>
<td>0.9575635</td>
<td>Variance</td>
</tr>
<tr>
<td>Skewness</td>
<td>-2.4772174</td>
<td>Kurtosis</td>
</tr>
<tr>
<td>Uncorrected SS</td>
<td>3982</td>
<td>Corrected SS</td>
</tr>
<tr>
<td>Coeff Variation</td>
<td>14.379794</td>
<td>Std Error Mean</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Basic Statistical Measures</th>
<th>Location</th>
<th>Variability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std Deviation</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>Variance</td>
</tr>
<tr>
<td></td>
<td>Mode</td>
<td>Range</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interquartile Range</td>
</tr>
</tbody>
</table>
Appendix 2- Questionnaire in English

Ethical Dilemmas in audit work

In our research we are going to examine the perception of auditors in ethical dilemmas regarding the effectiveness of legally enforceable code of ethics in Iran. We really appreciate your help in this regard.

Please specify the type of your membership

- Freelance accountants
- Accountants who are partner in any of the 234 auditing firms that are organized in the accountants’ professional association.
- Auditors who are member of the Auditing Organization
- Unemployed auditors

How long have you been working as an auditor

In this part, your perception will be tested through different situations and you are requested to decide about the effect of that condition on your independency. You should rate such effect by choosing between 1 to 7, which ranges from “not impaired” to “impaired”.

**Ethical Dilemma 1**: If rotation for audit firms concerning a listed company was to be 5 years instead of the existing rules (currently three years in Iran), then my independence would be:

1 2 3 4 5 6 7

Not impaired □ □ □ □ □ □ Impaired

**Ethical Dilemma 2**: We have been rendering audit services to one of our clients (not listed company) for almost 10 years. In order to maintain independence, we rotate merely
those who work in audit engagement team every 5 or 6 years (not the leader or partners). In such case, my independence would be:

1 2 3 4 5 6 7

Not impaired □ □ □ □ □ □ Impaired

**Ethical Dilemma 3**: If one of our clients (listed company) intends to extend the contract, it would be better to leave it to us, as a reputed and professional firm, to take the decision. Then my independence would be:

1 2 3 4 5 6 7

Not impaired □ □ □ □ □ □ Impaired

**Ethical Dilemma 4**: Since we have specific knowledge about one of our clients, that company was eager to hire us for “management advisory” services too. However, we have to refuse since rendering these services and audit services at the same time are legally banned. My independence would be:

1 2 3 4 5 6 7

Not impaired □ □ □ □ □ □ Impaired

**Ethical Dilemma 5**: In addition to audit services, we are also going to design the accounting system for one of our clients. Based on the contract, it is our responsibility to decide on the content of the program and to run the system. My independence would be:

1 2 3 4 5 6 7

Not impaired □ □ □ □ □ □ Impaired
پیوست 1: پرسشنامه به زبان فارسی

هدف این تحقیق بررسی دیدگاه حسابرسان در خصوص تاثیرلوی پرویز از این رفتار در فرهنگ بر استقلال
حسابرس در محظوراخلاقوی قرار می‌گیرد.

پیشی‌پیش از همراهی شما در این تحقیق سپاسگزاریم.

لطفاً مشخص کنید شما چه کدام یک از گروه‌های عضو جامعه حسابداران هستید:

- حسابرسان شاغل انفرادی
- حسابرسان شریک در 234 موسسه عضو جامعه
- حسابرسان عضو در سازمان حسابرسی
- حسابرسان غیر شاغل

شما چه مدت است که عضو جامعه هستید؟

در ادامه در جوجه قضاوت شما در رابطه با موقعیت‌های در بر دارنده محظوراخلاقوی بررسی می‌شود. در این راستا شما می‌پایست در مورد تاثیر موقعیت بر استقلال اظهارنظر کنید. پاسخ‌ها هست 1 تا 7 با 1 یک روند صعودی از "آسیب می‌بیند" تا "آسیب نمی‌بیند" درجه بندی شده است.

موقعیت 1: اگر یکی از حسابرسی در حسابرسی شرکت بورسی هر بیشتر سال یکبار در مقایسه با فلکه انجام شود استقلال می‌باشد:

7 6 5 4 3 2 1

آسیب نمی‌بیند 6 5 4 3 2 1 آسیب می‌بیند
موقف 2: شرکت ما با یکی از مشتریان (شرکت خارج از بورس) بیش از ۱۰ سال است که همکاری می کند به مدت
حفظ استقلال شرکت‌مان فقط افراد تیم کمک حسابرسان را هر چند سال یکبار جا به جا می کنیم. در این شرایط استقلال
مان:

\[7654321\]

آسیب نمی‌بیند □□□□□□□□ آسیب می‌بیند

موقف 3: اگر در حسابرسی یک شرکت بورسی مشتری ت铱بل به تمدید قرارداد داشته باشد بهتر است ما خود به عنوان
یک شرکت با سابقه و حرفه‌ای در مورد ادامه فعالیت‌مان تصمیم بگیریم. در این شرایط (با توجه به حقوق سهامداران)
استقلال مان:

\[7654321\]

آسیب نمی‌بیند □□□□□□□□ آسیب می‌بیند

موقف 4: از انجایی‌کردن شرکت ما به خویش به عمل‌کرد یکی از مشتریان واقف بود آن مشتری تصمیم به بستن قرارداد انجام
خدمات مدیریتی با شرکت ما را داشت که ممن قانونی به هم‌زمان کار حسابرسی و غیر حساب‌سی مانع قبول آن شد. در
این شرایط استقلال مان:

\[7654321\]

آسیب نمی‌بیند □□□□□□□□ آسیب می‌بیند

موقف 5: در قرارداد دیگری در رابطه با طراحی سیستم حسابداری برای یکی از مشتریان مستولیت برنامه در رابطه با
تصمیم گیری و اجرای آن با شرکت ما است. در این شرایط استقلال مان:

\[7654321\]

آسیب نمی‌بیند □□□□□□□□ آسیب می‌بیند