(Un)realised Auditor Independence in the CEE Region: Insights from Interpretive Cultural Theory

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Abstract

The authors investigate how culture impacts upon construction of auditor independence within the Central and Eastern Europe region (hereafter CEE). Drawing from Geertz (1973), culture is referred to evolving identities in the transition economies and illustrated on the examples from Poland and the Czech Republic. The paper also provides theoretical considerations for engaging the construct of culture in accounting and auditing (organisational) research; these are associated with the difficulties in defining culture, delineating its boundaries and determining the nature of its transmission mechanisms.

The study concludes that in Poland and the Czech Republic an emphasis on the value of freedom in a professional context downplays an intrinsic acceptance of a Western construction of auditor independence.

Key words: culture, auditor independence, interpretive research, Poland, the Czech Republic, CEE

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Introduction

Auditor independence for years has been seen as a crucial aspect to the credibility of the external audit as a monitoring device and similar assertions to this are included in the professional codes of ethics internationally (IFAC, 1999; 8th EU Directive 1984). A basis for this belief in the importance of auditor independence is a breach of trust in contemporary society (Power, 1996), management of enterprises may not always present full and fair financial information about their enterprises to users of the financial statements.

However ‘important the concept of independence is to auditing, it is one of those elusive ideas difficult to reduce to an easily understood definition’ (Sharaf and Mautz 1960:49). As independence of the auditor cannot be observed, the appearance of auditor independence has been seen as important to maintaining users’ belief in the credibility of financial statements (POB 1994). Further, in the contemporary world, with perpetual image creation, sometimes referred to as culture of spin (e.g. Gallhofer et al., 2000), the appearance of auditor independence may be perceived as even more important.

The concept of auditor independence has been conceived in a predominantly Anglo-American context and that is where the majority of the research has been conducted. This has led to various professional committees investigating the matter in the UK and the US (e.g. SEC, 2000; FEE, 1998; GAO, 1996) and has been the focus of much research (e.g. Jeppessen, 1998; Kleinmann et al., 1998; Sutton, 1997; Wallman 1996).

Recently the concept of auditor independence has been transferred to different economic, social and historical contexts such for instance the CEE but how does it operate, assuming that it is operational in the Anglo-American and capitalist context in the first place? With a transfer, how
does auditor independence reflect the cultural, historical, social, economic and professional contexts in which the audit is carried out and what problems might arise? We have no preconceived ideas about how successful this transfer might be and what sort of themes in operationalisation we might find. However, we do expect some impact of local cultural milieu.

This study addresses the impact of culture on the construction of notions of independence and auditor independence in the context of the CEE. Two country studies will be analysed: Poland and the Czech Republic. Hence, the objectives are to look at how auditors and other interested parties construct the notions of independence and auditor independence and how in the Czech Republic and Poland, culture may or may not facilitate a notion of independence as defined in the professional codes of ethics internationally (IFAC, 1999). The reminder of the paper is organised as follows. First, a review of culture incorporating studies in accounting is presented. Second, Geertz’s approach to culture as a vehicle adopted here for the analysis is discussed. Third, the location of culture is considered with particular reference to the CEE region. Fourth, the research methods are explained. The following section presents the results. Finally, conclusions are delineated.

**Culture in accounting and management research**

Representations of cultures are snapshots of the symbols and practices that have come to fore at specific historical conjunctures. The review below concentrates on those aspects of definition, cultural relativity, and operationalisation that may be relevant in particular to an economy in transition and which we propose to research.

The notion of culture is used by different writers in different senses, and before anything is affirmed about cultures it is important to clarify in what sense one is using this term. There have been problems defining culture and there are numerous different meanings attributed to culture in
the literature (see e.g. Alvesson, 2002; Martin and Meyerson, 1988; Gagliardi, 1986; Schein, 1985; Ouchi, 1983; Kroeber and Kluckhohn, 1952). Through tradition and socialisation, culture may contribute to the fixing and freezing of the socio-cultural order. Hence, there are tensions between the creative and destructive possibilities of culture formation (Jeffcutt, 1993). People subordinate themselves to existing forms, values and social patterns. They take certain interests as given and/or good and refrain from considering alternative ways of creating social reality (Alvesson and Deetz, 2000). For instance, this can be illustrated through the absence of questioning of formative communist ideologies in the post-war period in the CEE context (Kosmala MacLullich et al., forthcoming).

If we accept that culture is a multi-dimensional concept, one approach is to research only some dimensions of culture that are capable of measurement, e.g. by using Hofstede’s framework (1984) ². Much accounting and management research on culture has followed that of Hofstede’s framework (1984) somewhat based on stereotyping and intuitive speculations, as it has been considered, easy to understand, access and operationalise (Baskerville, 2003). There have been statistically-based studies (e.g. O’Connor, 1995; Harris et al., 1994; Ho and Chang, 1994; Ueno and Wu, 1993; Chow et al., 1991) and also studies applying a more intuitive approach (e.g. Cohen et al 1993; 1992; Gray, 1988).

Recently, there have been criticisms of Hofstede’s work. As his research framework was predominately constructed in the 1980s, he used a very particular and static geographical mapping inclusive of examples of totalitarian regimes of the former Eastern Block countries, adopting a naming and sub-grouping which does not exist on the map of the new Europe, e.g.

² Hofstede defined culture as the ‘collective programming of the mind which distinguishes the members of one group from another (and) the interactive aggregate of common characteristics that influence a group’s response to its environment’ (Hofstede 1984:25). Based on his survey of a large number of individuals working across more than 50 countries for a large multinational, he developed a model to operationalise culture into four dimensions. These dimensions were power distance, individualism, uncertainty avoidance and masculinity (Hofstede, 1980, 1984).
Yugoslavia. In fact, he used only very few examples of then the ‘Iron Curtain’ countries. McSweeney (2002) has criticised both the adequacy of Hofstede’s research methodology and the way Hofstede conceptualises culture as, ‘implicit; core; systematically causal; territorially unique; and shared’ (91). Though the majority of McSweeney’s critique focuses on the weaknesses in Hofstede’s methodology, he points out the weakness in presuming that culture is the key national independent variable as it ignores all the other factors at play that make individuals behave as they do. The adequacy of Hofstede’s assumption that culture is territorially unique in a world where individual territorially defined states have fissured (e.g. Yugoslavia) is also challenged (p110). Also, Hofstede omitted ‘describing the organisational and behavioural mechanisms that link the various levels of culture to organisational (professional) behaviour’ (Cray and Mallory 1998:142)\(^3\). Our (cultural) construction is a result of a process of boundary (location) formation under the specific socio-historical conditions (Barth, 1969). There is a need for establishing the boundaries of cultural groups\(^4\). For instance, an individual born in the CEE region in the 1950s would have spent most of their life under a totalitarian communist regime and have developed the necessary coping strategies in the professional (organisational) context. An individual born in the 1970s would have experienced their young years under a similar regime, but most of their working lives, post 1989, would be in the transitional economy for which different strategies in professional context are necessary.

It could be argued that Hofstede’s framework ‘facilitated halting progress in culturally informed research’ (Cray and Mallory 1998 p. 144) as it has constrained the development of a more subtle

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\(^3\) Hofstede (Hofstede et al., 1990) acknowledged the impact of organisational culture, he suggested that organisational and societal culture do not directly affect each other.

\(^4\) Identity is argued to be flexible enough to allow for a degree of ‘choices’ over the form in which it is embraced. In Bourdieu’s terms (1984, 1991) cultural identity can be understood as dispositions or internal group norms, which regulate and generate actions, perceptions and representations of individuals. For instance Wodak (1999) discusses (national) identity in terms of *habitus*. 
and more theoretically based approach to understanding how culture influences a construction of meanings (such as auditor independence) in individuals, groups, sub-groups and indeed in the professional settings.

Key elements of Western (Anglo-American) culture as identified in prior cultural research (above) such as progress, efficiency, rationalisation, productivity, masculinity, control, and hierarchy; form a dominant ideology defining what is rational and effective in other locations as the CEE (a culture-bound phenomenon). A discourse of auditor independence has been constructed in the same way, privileging a particular epistemological stance, i.e. an emphasis on objectivity, integrity and professional competence in forming a sense of independent professional. Analysing auditor independence in a different context from much of the Anglo-American and subsequently capitalist context based research enables us to review the idea from a different angle and provide insights into an alternative construction of the independence concept.

There was some research which considered the impact of (national) culture on auditor independence (e.g. Patel and Psaros, 2000; Agacer and Doupnik, 1991; McKinnon, 1984). Agacer and Doupnik (1991) indicated that German auditors were more conservative in relation to auditor independence than American auditors but less then Philippine auditors. McKinnon (1984) suggested that the cultural determinants of interpersonal and inter-group relationships in Japan preclude an intrinsic acceptance of auditor independence. This arose because Japanese cultural and social relationships emphasise the importance of interdependence and group orientation for an individual rather than the individual’s attributes and skills. Her analysis also suggested that the immediate historical context (the concept of the independent audit was very new to Japan when it was introduced) was crucial to the problems of accepting auditor independence. Markus and Kitayama (1998) argued that ‘selves in Asian cultures are mainly context dependent, perhaps because the are integrated with and experienced within social roles, positions and relationships.
This mode of personality organisation is very distinct from the Western mode where the person is constructed to be a coherent, stable and consistent being organised by an assortment of essence of trait like attributes’ (p. 77). Patel and Psaros (2000) suggested that a core cultural concept, in researching auditor independence in India and Malaysia is the construal of self as independent or interdependent. Their argued that ‘the interdependent construal of self for relating to others, fitting in and maintaining harmonious collaboration with clients, is an important cognitive ‘self system’ which is likely to influence how individuals perceive notions of independence’ (p. 319).

As there have been little research that allowed other voices to be heard aside those of dominant discourse (centre), we are motivated as much as possible, not to privilege any particular views in gaining insights into how auditor independence is constructed locally on periphery (outside a dominant discourse). The periphery here being the CEE region. Taking a cultural turn, a key difficulty is to utilise the most appropriate conceptualisation of culture, given the objectives and the research approach taken. The following section presents the approach adopted in this study.

**Interpretive cultural theory: Geertz’s notion of culture**

The objectives of this study are to look at how auditors and other interested parties locally construct the notions of independence and auditor independence and how in the Czech Republic and Poland culture may filter through a Western (dominant) discourse of these constructs.

Culture and social systems represent different abstractions of the same phenomenon. Culture describes social action as depending on the meaning it has for those involved, while social structures describe social action from the point of view of its consequences on the functioning of the social system. Cultural manifestations are frequently affected by, anchored in and closely related to socio-material reality (Alvesson, 2002). They provide the interpretive frameworks; the theories, images, concepts, and narratives as well as the means, practices, and patterns of
behaviour by which people make sense (i.e. construct meaning, coherence, and structure to their ongoing experience) and organise their actions (Markus and Kitayama, 1998). This is why we have given much importance to culture in our study.

Cultural meanings, however, do not develop freely or spontaneously, instead they bear imprints of ideologies and actions of powerful agents. Cohen (1974) and Martin (1992) suggest that descriptions of culture (and cultural manifestations) excluding ambiguity would be misleading and incomplete. Connecting culture to power, politics and conflict refutes therefore a common orientation within cultural studies in which culture is viewed as implicating mainly consensus and harmony (see for instance Hofstede et al., 1990; Schein, 1985). We acknowledge that understanding of culture is enveloped in understanding of how power operates in dominant meanings and in the asymmetries of social relations and work places.

It is also important to emphasise that structures of meaning can be public in all of these senses and still be internalised states. On one hand, culture resides in a set of public meaningful forms, which can be seen, heard, or sensed. One the other hand, these forms are rendered meaningful because human minds interpret them (Hannerz, 1992). The cultural flow consists of the externalisation of meanings which individuals produce and the interpretation of which they make of those of others and of their own. For instance, narratives of cultural identification in the CEE can be expected to be ‘sifted through’ the evolving ‘open’-market economy discourse.

Geertz’s (1979) approach to culture appears as particularly applicable in facilitating the process of the externalisation of meanings that simultaneously reflect the personal and the public domains. Geertz adheres to culture as to a concept which denotes a historically transmitted pattern of meanings embodied in symbols, a system of inherited conceptions expressed in symbolic forms by means of which people communicate, perpetuate and develop their knowledge
about and attitudes towards life (1979:89). Cultural identities appear to be unified through stories, images, symbols and rituals represented as the historically transmitted patterns of meanings. Symbols are often contested, that is verbally interpreted and linked to the values, ideas and groups for which they stand. Hence, cultures can be envisaged as zones of shifting boundaries and hybridisation (Bhabha, 1994).

We argue that cultural identities within the CEE are hybrid forms, mediated along the lines of beliefs, class, gender, age, and tradition. On one hand, it may be possible to state that, since the Second World War, both Poland and the Czech Republic have been more linguistically homogeneous. On the other hand, however, countries within the CEE form a hybrid of historical experiences often imposed on nations through dominating powers and the degrees to which people adopted and resented imposed ideologies of the centre signalling relations to the centre, periphery and marginality. These processes are intermingled with a meta-story of Slavic origins in this part of the world (Barker and Galasinski, 2001). In this paper we want to ‘reproduce the collectively held dispositions and understandings’ (Foster, 1991: 235) that constitute culture in the CEE. Because the focus of this study is to depict shared cultural meanings in the CEE context, the Central and Eastern Europe context was differentiated from Eastern Europe\(^5\). Being (Central) Eastern European is a matrix of historical, cultural, linguistic and religious identifications and practices as well as political and geographical terms. Hence, in this study, the cultural identity in the CEE is constructed not so much as ‘particular shared features’ but as a set of characteristics which differentiate one ‘set of ways of being in the world’ from another set. We acknowledge that cultural identity is relational and context-bound so it cannot be separated from the circumstances of those individuals claiming it. In our approach to the interviews we have asked

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\(^5\) The CEE is located at the meeting point of the Bielorussian - Lithuanian - Polish frontiers, on the boundary of the Roman empire, and latter, the Ottoman Empire; that is in the area bounded by the Prague-Vienna-Budapest-Krakow line.
participants for their background, professional and personal values, for what it means to them to be professional and what it means to them to be Polish or Czech.

Geertz (1973) also argued that not only most of the publicly observable world pre-exists us, but mental structures by which we interpret the world are developed through explicit teaching and implicit observation of others’ ways of being in everyday talk, rituals, habits, customary law and social practices. While norms indicate how people should behave, culture has a broader and more complex influence on thinking, feeling, and sense-making (Schneider, 1976). Hence, the authors of this study acknowledge that cognition cannot be considered apart from emotion (internalised feeling). We acknowledge impact of feelings in a discourse analysis.

In sum, cultural identity is not a fixed universal essence, but performative citation and reiteration of regulatory discourses. What individuals embedded in the CEE context consider their historically informed traditions and deep-rooted cultural notions are reproduced and re-created in the present. For instance, what may have been regarded as particular values of a culture e.g. the emphasis on one’s circle of friends as part of life under the centrally planned economy (Ledeneva 1998), may change under different economic and political circumstances. These discourses are the locus of a management of meanings by which culture is generated and maintained, transmitted and received, applied and exhibited (Holy, 1996; Geertz, 1973). Any culture is continuously re-created and re-performed in contemporary discourses.

Therefore, as the concept of culture seems to lend itself to very different uses as collectively shared ideas and cognition as symbols, values, ideologies, rules, collective unconscious, behaviour patterns, structures and practices, a discourse-based approach to culture, which can be elicited through discourse analysis, appeared most appropriate to our research objectives given
the approach of using interviews. Discourse analysis permeates the ‘seeing as’ mode of approaching research, thus making interpretations of data with attention to local insights possible. We have asked the interviewees for a background to auditor independence, how they define it, while at the same time being attentive to how they were making sense of this construct, how they rationalised it and what examples they gave (focused on) to illustrate it. We intended as much as possible to graph the meanings behind the interviewees’ words.

**Methodology**

Vocabulary well evidences the reality of culture, in the sense of historically transmitted systems of concepts and attitudes (Wierzbicka, 1997:21). The speaking subject is capable of a creative use of language, therefore identity remains an achievement of language users. As constructed interpretive frameworks ‘that are available to individuals and groups are shaped by the language in which views may be expressed; these, in turn, are influenced by the culture of which the language is a part’ (Cray and Mallory 1998, p.157), it is important to attend to the use of language. Two countries in the CEE region were selected for the analysis, Poland and Czech Republic. Insights into how Poles and Czechs are represented as ‘doing things’ in professional worlds and private worlds they belong to, how they interpret the key constructs (here auditor independence) and how they become engaged in events were sought.

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6 The term discourse for linguists is envisaged as units of language that exceed the limits of a single sentence and are produced in everyday communication (Halliday, 1978), whilst discourse analysts, following the usage shaped largely by Foucault (1972) tend to see it as a corpus of texts taking spoken, written, iconic and other forms and produced in a variety of contexts (Fairclough, 1989; 1992). Hence, discourse can be envisaged as socially constituted communication which leads to the production of a set of texts producing both continuity and change.

7 It is not so much that we possess multiple identities, as that ‘we are constituted as a weave of different accounts of the self’ (Barker and Galasinski, 2001), through interchange of discourse and belonging to different systems and subsystems.
Data was generated through interviews and observation of general milieu. As media, and in particular mass media are nowadays the main stream of communication of shared cultural meanings, data also came from the writings of various Czech and Polish intellectuals, newspapers, magazines and local television programmes. One of the authors’ birth into the culture in the CEE in general (common historical experience) and exposure to the ways of life in the post-communist transformation of societal context (Poland) has generated a peculiar sense of both familiarity (local origins) and a distance (discourse analysis). The other author while being part of British (English) culture has been exposed to the CEE context (research, family links) since the mid-1970s. Patterns of meanings are better understood if approached from a wide spectrum of reference points by a researcher who is both emphatically and intellectually distant from and close to the subject (Alvesson, 2002, p. 131). This combination of researchers’ experience facilitates a ‘closeness and distance in relation to subjects’ as required for interpretive approach (Smircich, 1983).

Interviews’ data was collected between September 2001 and April 2002 in the Czech Republic (Prague and Kladno) and in Poland (in Warsaw and Gdansk). See Appendix 1 for a list of interviewees. The interviews were semi-structured, lasted between one and three hours, were tape-recorded and participant observation notes were taken. Interviews were conducted both in English and native languages, Polish and Czech. The participants, with a very few exceptions, were interviewed by both authors. As far as it was possible, the interviewees topicaly controlled the interview process. Initial questions were set to illicit the interviewees’ responses to a Western construction of auditor independence. This was motivated by the fact that most of these requirements are included in local laws and codes of ethics. Further questions, however, opened up towards a more general discussion leading to sense making of the construct. Also, reflections on what it means to be Polish/Czech and professional/private were stimulated. Appendix 2 presents an example of a generic list of questions.
Given the significance of the context, the questions asked were not about what it means to be Polish or Czech *per se*, but what it means to be independent for a particular set of informants located at a specific conjuncture of time and who represent a certain social (professional) grouping; accounting professionals in the transition economy. The boundaries of a specific cultural group that is being researched needs to be clarified or alternatively it should be acknowledged that there may be different cultural sub-groups within the group researched that affect what is being researched e.g. auditor independence may have different meanings for different occupational groups given different group cultural specifics. Thus, all interviewees represented a group of middle-class, graduates with a professional status in financial communities in Poland and Czech Republic respectively.

The interview transcripts were drawn up immediately after the interviews. In transcribing of data an attempt was to render the style and the content of the originals, thus providing all imprecision, ambiguities and inconsistencies. Also there was no attempt to impose a particular interpretation of them through translations. Both authors prepared their interview transcripts independently. These transcripts were then compared for accuracy and cross-validity (interviews). Insights gained from a literature review (context) further informed the interview data. Diagram I summarises the process of data analysis.

Insert Diagram I here

Both authors took the interview’ transcripts supported with context data and coded the text for common themes that seemed to arise in the discussion on culture discourse and issues that arose with auditor independence. This led to an extensive discussion on categorisation of core codes. On that basis, final codes were agreed. These codes were then interpreted and reflected upon for
cross-validity (Alvesson and Skoldberg, 2000). This reflexive process led to a reduction of the analysis to core codes (culture codes), and frames of references (exploratory powers for core codes), the latter seemed at first to represent the different categories used by the interviewees in their discussions of issues on auditor independence. However, frames of references act as additional informants for the core codes. The summary of codes and frames of references is presented in Table I.

Take in Table I here

With this codification, we were making a preliminary attempt to identify how culture informed the interviewees’ sense making of the constructs of independence and auditor independence. We are aware that our codification of these dimensions may be somewhat intuitive and exploratory in nature (e.g. issues of conceptual equivalence of interviewer/interviewee interaction can be perceived as displaced at times). We also hypothesise that an attempt could be made to identify auditor independence dimensions to core codes, in order to take a holistic view of auditor independence incorporating local insights to analysis (as oppose to elite insights represented by the Western world views) (Alvesson and Deetz, 2000). In other words, we mapped auditor independence definitions/dimensions into the core culture codes.

Narrative analysis of the interviews and analysis of discourse, through a focus on the structure of language, facilitated the process of understanding the construction of some cultural identities of the CEE. In analysing the interviews transcripts it was important to attend to the ways people represented themselves. Personal references in space and time, intentional vagueness, rhetoric and competing discourses formed a repetitious pattern across all interviews in both countries concerned.
First, personal (e.g. ‘we’, ‘they’), spatial (locations) and temporal (e.g. ‘fifty years ago’, ‘newness of the market’) references across all the interviews serve to construct what is sameness and difference. For instance, relating to all in the interviews is the means of talking on higher level of abstraction. There are no longer individual Poles or Czechs who bribe in public spheres, but a mass entity doing so. Such representations form a sense of legitimation for individual action. Also, it is argued that it is easier to abuse/offend an inanimate object that an individual person.

Second, responses to the questions with regard to cultural identity may not be overt because of recent historical experiences (at times traumatising i.e. oppression, invasions, belonging to particular ideological group, representing particular set of beliefs, values). Therefore people’s speech appears rich in vagueness, allusion and rhetoric facilitating ways interviewees prefer to chose to represent who they are as will be illustrated in the country studies. Wodak (1999) argued that vagueness, euphemisms, linguistic hesitation and disruption, slips, allusion, rhetorical questions and modes of discursive representations act as linguistic devices in construction of identity. It could be argued that all these devices are significant for interpreting an identity construction through interviews in the cultural contexts of the CEE where selfhood is somewhat implicit. At times, it could be interpreted that either the interviewees did not like the question or they disliked being reflexive (interview process) and seemed uninterested in the topic (interview contents). This arose in some of the answers to questions about cultural identity in the Czech Republic. Here are the examples of the Czech interviewees personal views of the Czech nation:

‘OK it is not important (to me) that I am living now, but it affects my Grandmother, Grandfather (who were) from the Czech Republic, not exactly in the border Czech Republic’ (Individual auditor)
‘I would say that the idea of a nation has sunk….because Czechs embrace Germans (in) this culture category for me especially….because I think that (each) member of each nation has other habits.’ (Auditor in medium sized audit firm)

Third, it could be argued that it is emotionally easier to refer to ‘other’ such as Germans or Western Europeans and not discussing issues ‘who are we’ in the context of a recent history. Construction of cultural identity in Poland and Czech Republic is frequently associated with reference to difference and opposition. This is significant in the context of on-going socio-economic and political integration processes with the EU.

Further, a discourse analysis of meanings associated with concepts of independence and auditor independence enables insights to be gained into both the professional and personal dimensions of participants’ culture. In analysing the transcripts, we have focused on what independence and auditor independence constructs mean to the interviewees and simultaneously how they made sense of it and of themselves as professionals and private individuals. The aim of the paper was not to convey universal historically constructed truths. Rather, the study located the interviewees’ perspectives in the local context.

We acknowledge a distinctive separation between the private and public domains brought by abolition of the private ownership of the means of production under socialism and the earlier loss of sovereignty by invading neighbouring powers (partition and wars). This is supported by an analysis of the symbols invoked by interviewees with relation to the transition period. These different understandings of the past as shared cultural meanings underpin the on-going identity dimensions in the CEE region; these are, state and individual, individualism and egalitarianism, freedom and independence. In that way, discourse in transcripts is analysed. It could be argued
that auditor independence is a particularly interesting construct to study as its meaning in the CEE is played out thorough these above mentioned discourses.

Discussion

In the previous sections the process of constructing cultural identification was explored. Cultural identity is not *a priori* given set of characteristics but is negotiated through experience and history. It is a changeable and negotiable characteristic that is subject to the self’s reflexive capabilities. The sense of history in Poland and the Czech Republic is transmitted through shared experiences and embedded in the cultural values. For generations, Poles and Czechs constructed identities in the context of foreign domination and/or ideological repression. Through these experiences, an awareness of cultural heritage continues to influence how individuals perceive themselves today.

This section is organised as follows. First, to provide some understanding of a context of the CEE, we present common cultural themes of the CEE from the literature. Then, an analysis is divided into individual country studies, Poland and subsequently the Czech Republic, where we first discuss a country background and second the issues of cultural construction of auditor independence emerging from the interview material. Certain degrees of vulnerability and/or defensiveness resulting from reflection on history during the interviews gave insights into differences between Poles or Czechs giving different accounts for constructing notions associated with the auditor independence construct: constructs of independence, independent in spirit and freedom.

Common cultural representations for the CEE

Common cultural representations for the CEE is transmuted through recent history, and in particular, through the experience of the communist regime. Under Soviet times, land and
industry in the CEE region was nationalised, although to different degrees in different countries. With the private ownership of virtually all means of production abolished, labour power was employed exclusively in the public sphere (Ihnatowicz et al., 1999). The individual was an object of manipulation with the prevailing feeling of helplessness in the public spheres. Simecka (1990) argued that the omnipresent lie of the state had a devastating effect on morality in general. Individuals were taught to lie at school by hiding personal convictions, then lied in the workplace, in dealings with authorities, in courtroom; it was a lie in self-defence as the state cheated on the individual. Identification with the state was denied as a positive value. The same individual viewed with sadness a lie from a child or a friend (p. 148-150). The lies outside the strictly delimiting private domains were subject to different moral laws. The accommodation of individual lifeworlds to the socialist system was expressed in a joke

‘The first peculiarity of socialism: everybody is employed and nobody works. The second peculiarity: nobody works and the plan gets fulfilled one hundred per cent. The third peculiarity: The plan is fulfilled one hundred per cent and there is nothing to be had in shops. The fourth peculiarity: there is nothing to be had in shops and people have everything. The fifth peculiarity: people have everything and everybody grumbles about the regime form the morning until night. The sixth peculiarity: everybody grumbles about the regime from morning until night and in elections everybody votes for it’ (Holy, 1996, p. 31).

As a result, the division of life into public and private spheres was inevitably sharpened (Holy 1996:19). ‘There is a state …and a second level: family. I am here, my son, my daughter, my wife, my very small circle of friends. And there is nothing in between. There are no anchors at the level of enterprises, firms, institutions’ (interview Obloj, 1990, cited in Shen, 1991:204). Holy (1996) suggested that these were the major reasons for the difference in public and private
morality as well as modes of conduct in Czech Republic; patterns of hospitality and socialising. Ideas that different moral norms applied in private and public lives developed across the CEE. Hence, a terror of wars and communist era echoes in everyday life; the CEE people still value dealings with social institutions through individual (independent) wits where at times contriving (kombinatorstwo) may be justifiably put above work ethics or public accountability.

Now, the Poles and Czech lands are seen as part of neither Western nor Eastern Europe but Central Europe. Interviewees talked about going to Germany, France, Spain to ‘visit the West’, they buy ‘Western cars’, ‘Western technology’. They talked similarly about the East; Russia and the Commonwealth of Independent States. The set of values and concepts evolving from that role are in a constant competition with a discourse which espouses the values of Western–type individualism which constructs individuals not as parts of a nation but as individuals in their own right. Also, there is a strong element of transitivity in the way Polish and Czech people represent themselves; a new representations emphasising ‘belonging to Europe’ but also ‘our reality’. A common European heritage is no doubt increasing in importance in the discourse in the CEE identity. It could be argued that CEE cultures are systems of values and concepts in continuing tensions with each other and which surface and are argued about in a multiplicity of discourses through which they are created and re-created legitimising a new order.

Hence, it appears to be a variety of shifting identities in particular in the context of the macro-change; the on-going transition processes in the CEE region. An experience of socio-political and economic transition is intermingled with reflection on the centrally planned economy experience and invasions of neighbouring powers (with, for example, references to ‘our reality’). In that way, cultural identity mediates the social structures which speakers inhibit. Therefore, the authors acknowledge that they could only attend to some layers of interpretation in the data analysis.
Country study examples

Poland: The context

Romanticism and its values survived in Poland far beyond its existence as a period in history and it determined, to some extent, national cultural development up to the middle of 20th century (Mozejko, 1996). It could be argued that Polish identity rejected political pragmatism and embraced historical nativism and romantic sentiments for freedom as moral values (Prizel, 1998). Poles often mobilise around issues in political and professional spheres rather than around solutions (Kolankiewicz and Lewis, 1988). Also, being Polish is equated with the Catholic value system. As one interviewee explained: ‘For me a matter of territory – it is a matter of tradition, religion and family history. Than issues are narrowing down to individual experiences’ (Chamber of Auditors). The Church brought to Poland what is Western, strengthening the value of individual freedom and distinguished from what is Orthodox and subsequently from the East (Kosmala MacLullich et al., forthcoming). For Poles, among the most cherished values are individualism, personal respect, independence and freedom (Shen, 1991). How might these elements of Polish culture infuse an understanding of auditor independence?

The division of life into public and private, formal work and informal activity, passivity in public spheres (Holy, 1996) is contrasted with the vibrancy of the freer attitudes in other milieus outside the state domains. We therefore argue that these issues are partially responsible for the (un)realisation of auditor independence.

Independence is often referred to as freedom from foreign supervision or intervention. On the whole, Poles rebel against dependent positions, whether imposed from without, from foreign frameworks or from a domestic economic condition in which they do not identify with (Kolankiewicz and Lewis, 1988). This is particularly relevant for harmonisation of law in the
context of transition when a multitude of Western notions, including those of auditor independence, are imported to the national frameworks without being anchored in a background of knowledge transfer (substantial rationalisation). This may lead to mimicking instead of negotiating a consensus on knowledge transfer. It may often have an appearance of compliance, but de facto imposed frameworks are interpreted into local ways of doing things ‘na chlopski rozum’ (with a peasant’s mind). This Polish expression means interpret to your own devices or more generally finding your ways through imposed (unexpected, difficult) situations, for instance in the newness of legislation, interpreting the regulations.

Now economic freedom sought is often referred to as freedom from wanting what should be there but is not. Freedom to be one’s self is cherished. Individualism, a trait cultivated in contemporary Poland has its historical evolution (Kolankiewicz and Lewis, 1988). The desire to be independent is interrelated with individualism. In contemporary Poland, during the formative years young people are given freedom to explore their strengths and weaknesses, to make their own choices, to be their own masters in life. From such an atmosphere, Polish youth mature to be individuals. Therefore a value, a belief, or a practice imposed, in some way, from above, unless palatable to personal conviction, often does not lead to its desired effect. It could be argued that deeply rooted individualism is reflected in a nature of the local audit market where about 50 % of the Polish audit firms are sole practitioners (Cebrowska et al., 2000).

During the last two centuries, the value of personal freedom was linked in the Polish consciousness with the value of national freedom, and the national rights aspects of freedom came out as the foreground, making the word unsuitable for a use in a trivial and morally neutral contexts, or in the contexts related purely to individual rights. Wolnosc is not a state which one could enjoy but an ideal, that is, something one wants and struggles for. Wolnosc, hence, freedom and independence are absolute values, but not purely intellectual concepts (Ihnatowicz et al,
1999). It could be argued that for Poles, there is something transcendent, expressive and empathic about these constructs. Bartminski (1993) argued that perhaps what distinguishes the Polish attitude is that which accepts as the most basic value national freedom (wolnosc) and independence (niezaleznosc) and deduces from this a set of obligations of the individual towards the society. During interviews frequent references were made to auditor independence as having its grounding in the notion of freedom; what we call the freedom based approach.

‘Auditor independence is I think to be free from limitations; professionalism in other words’ (President, Chamber of Auditors)(…) ‘Also freedom from politics; left wing, right wing, changes of Boards of Directors in public companies. Auditor must not be political at all’ (Ethics Committee, Chamber of Auditors).

‘A sense of freedom from any external influences that affect quality and objectivity’ (Big Firm).

There seem to be intermingling of constructs of independence (as being linked to individual freedom) with auditor independence. At times, independence is equated with auditor independence. Therefore auditor independence seems to be conceived as freedom from all (any) constraints.

In 1957, the institution of audit experts was created to verify the accounts of state owned enterprises with the appointment of a state-authorised accountant (SAA). The SAAAs did not

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8 Freedom is also referred to as freedom of one’s consciousness in the context of universal truth (Kosmala MacLullich, 2003). Poles tend to talk about prawda more commonly than English speakers talk about truth. Truth can refer to not just truth but also to something like ultimate truth and/or hidden truth (Wierzbicka, 1997). We could argue that this unattainable ideal of truth needs to be counterbalanced with more common incidences of ‘practical’ truths.
create an independent profession, they were full-time employees in the finance and/or accounting divisions of state enterprise (Jaruga, 1979). For over 40 years (until 1991) auditors (SAAs) examined financial statements for tax purposes. SAAs acted as observers of financial discipline of the state enterprise ensuring that the accounts and the financial reports were produced in accordance with the regulations and ensuring that the enterprise had correctly accounted for all transactions with the state budget (Jaruga, 1976). The results of the SAA’s inspection were communicated to the higher administrative organs of the state, in particular, to the Treasury Office. Neither the financial statements nor the auditor’s report were made publicly available. It was sizeable profession, by 1985 there were more than 10,000 SAAs in Poland.

Perceptions of officialdom and the exercise of authority had destructive effects on creativity and professionalism where individual integrity and codes of ethics were not allowed (Kolankiewicz and Lewis, 1988). In 1991, the independent auditing profession was introduced (The 1991 Audit Act) in order to carry out compulsory audits of financial statements. The role of audit was redefined as an independent examination of financial statements so as to report on whether the company’s accounts reflect fairly and truly economic realities. Former SAAs were entered on a list of auditors without prior examination or training. Out of all auditors trained for SAAs, 44 % passed their retirement age of 65 are active practitioners. The continuation of the SAAs as members of the newly established profession, as epitomised in the Chamber of Auditors, form the mainstay of the emerging independent auditing profession. Out of 6,500 registered auditors only 500 were trained under the new 1991 framework.

The new Accounting Act 2000 released many of the small enterprises from compulsory annual audits and all companies from audits every three years. This change it is estimated affects a total of 70 % of Gross Domestic Product and is likely to lead to even more severe competition within
the audit market. These changes are generally perceived as a threat to Polish auditors who cover the middle and small firm market.

‘Until now I have 200 clients, all are smaller entities, that is those who have to be audited annually and also those which are audited every three years. Now, after the changes in thresholds I estimate, I will have half less clients’ (Audit partner, Polish audit firm).

As the number of companies that were required to be audited under the 1994 Act has decreased significantly, some Polish auditors argue that they may lose the client base consisting of up to 50% of SMEs.

This short overview provide some institutional background of the auditing profession in Poland. Some auditors still do not understand the changes in the nature of audit as transcending pure compliance with regulation audit to going concern and True and Fair View issues (Rojek, 2000). Certain traditions persist in accounting practice, such as influence of the Ministry of Finance in accounting regulation, importance of reporting financial results to the Central Statistical Office, a sense of bureaucratisation and formalism.

**Poland: Insights from the interviews**

When asked for a definition of auditor independence the majority of interviewees emphasised, what we have called a rules based approach:

‘I understand auditor independence in the same way as I learned it from the Code of Ethics’ (Polish auditor).
‘I define auditor independence by way in which it is regulated in the Accounting Act and Code of Ethics. There are specific rules on auditor independence’ (Stock Exchange).

In order to demonstrate knowledge and expertise there seem to be urge to appear to comply with regulation. Being professional and having professional integrity is somewhat manifested through being up-to-date with a changing letter of laws. Some interviewees cited regulations; e.g. one of the interviewees cited the regulation inherent in the Code of Ethics:

‘Independence the auditor confirms through behaviour; the auditor cannot have direct financial dependence on clients; i.e. investment in the clients’ company, financial interest of persons to whom auditor is closely related. The Code states that auditors should not get involved in any activities impairing their independence (section 3.2). Also, cannot audit if earned at least in one year out of the last five more than 50% of annual income from the client, parent, associate or subsidiary’ (Academic).

An adequate citation, done proudly, demonstrated the professional competence. The rules based approach was emphasised as the tradition in Poland.

‘The basis rule is that auditor cannot in any way be connected or linked to the audited company, certainly cannot keep books of that company. It is sort of our tradition, Polish habit. In our country accountants have professional procedures and accountants had always dealt with accounting, tax and auditing…During socialist times regulation was strict and auditor was not allowed to audit the same industry he was advising. So I believe independence in Poland has some rule-based tradition.’ (Accountants Association).
Such an approach to understanding auditor independence by local practitioners can be contrasted with an attitude of mind as defined in international codes (Anglo-American tradition). Here is an illustration of such views from audit partner from one of the Big 4 in Poland.

‘It is really a frame of mind. There are obvious factual considerations that are easy to define such as restrictions on ordinary shares in clients or not having a direct family in a chief executive position but the other aspect is the frame of mind…trying to remain objective, unbiased and reasonably sceptical. I really believe that audit signature is the stamp of objectivity’ (Audit partner, Big firm)

What is noticeable in this quote is rhetoric resulting from an Anglo-American training, not personal views. As having professional competence and integrity is understood as being objective.

Some interviewees stated that it was impossible that following a mere rule would ensure independence as ‘in Polish realms, the rules do not protect either an auditor or the profession (Polish auditor). Besides, Poles have a tendency to provide private interpretations for existing legislation as they ‘tend not to accept things as they are’ (President, the Accountants Association).

There seems to be some interrelation between a rule-based approach to auditor independence with what we called a freedom based approach. To appear professional people interpret (new) laws in their own ways. This is considered to be fair to have own interpretation. This is how these two approaches inform each other.

Some interviewees referred to a need to analyse auditor independence construct in the context of ‘our [local] reality’.
‘There are different stories with auditor independence, in our reality it depends very much on audit firm, the auditor and auditee. There are ethical audit firms who care for their name and also corrupted firms which sometimes make certain ‘concessions’ simply for money’ (Academic).

The relationships in a professional context are still defined, to some extent, by favours and comradeship. This also refers to Ledeneva’s (1998) notion of economy of favours. The interviewees stressed the importance of the recent history and its impact upon the ways of doing things and dealing with the others in the professional context. Here is an example of how the interviewee stresses the lack of trust in the public (professional) domain.

‘During and after the war the society was fighting an enemy, the government was an enemy in the communist times, therefore everything including non ethical behaviour was accepted’ (Chamber of Auditors).

The local circumstances made ethical behaviour, as defined in the Western context based ethics, somewhat unattainable. Interviewees argued that what appears somewhat unacceptable (in the West) is accepted in the context of transition realms and the recent historical experience. Shareholders’ rights are, at times, disregarded by dishonesty of the Boards and directors negligence for reporting issues (Reczek, 2000).

People in the professional context are perceived as more susceptible to manipulation or influence than in developed markets. There is however no sense of a big scale corruption as ‘corruption in government is quickly dealt with. When there has been any sense of corruption in the government, it gets out to the newspapers so fast that as an auditor you don’t have a chance to get
involved before it has happened’ (KPMG). Gifts and other forms of friendly favours normally acceptable and appreciated (expected). Here are examples.

‘Bribery or some other favours are a much bigger issue. Cheating to some extent, unless harmful, is acceptable here’ (Commercial Bank, Director of Equity Research).

‘Given the fact that it is an emerging market there is a risk that beside all hospitality, there are incidents of accepting bribes or trying to bribe and so on this is a problem in Poland still. It is difficult to deny it …Often though we are not talking about big bribes, e.g. a box of chocolates or a bottle of alcohol.’ (Audit partner, Polish audit firm).

We could argue that through a reference to ‘our reality’ on one side people emphasise hard conditions of professional existence but on the other formulate a sort of an excuse and justification for how things are done. At times reference to a notion of ‘our reality’ could be interpreted as rhetorical, acting as a form of personal defence for the asymmetry between ‘how things are’ and ‘how things are wished to be’.

There appears to be no tradition of professional integrity in the Polish realm. When the professional is trained in the Western (Anglo-American) mode, he/she is inducted to the Code of Ethics and in that way accustomed to a notion of integrity and its characteristics such as objectivity, competence, rigour etc. Such a process of understanding what professional integrity consists of is at contrast with society, such as Poland, which does not have such a tradition. In Poland, personal integrity and social networking are indicative of professional integrity and competence. As on the whole, ‘an individual conscience of being honest in the professional spheres still appears low’ (Balcerowicz, 1999), ‘personal integrity is now all we are left with’ (Academic). This in large defines the state of individual independence in ‘our reality’ Poland.
These above were examples of how the local practitioners saw auditor independence in the ‘our reality’. Polish auditors also referred to ‘our reality’ as ‘transition reality’ which delineates a particular bonding with the client, where ‘the client expects to be helped, advised on accounting matters, expects the auditor to know up-dated regulation, this is a part of the package and the auditor cannot deny help’ (Polish auditor). In other words, the clients appear to expect ‘wide’ dimension of auditors’ expertise under a contract for an audit service. Also, ‘often the directors do not believe in audit and therefore do not want to pay for audits’ (Polish auditor). If there is a climate of paying for favours in professional (public) spheres, then, it could be argued that audit opinions can also be negotiated.

In short, in Poland the understanding of independence encompasses a great deal of an emphasis on apparent compliance with laws on one hand (a rules based tradition), and a sense of individualism and the Polish ways of undertaking the audit on the other (a freedom based approach) in the context of ‘our reality’.

**The Czech Republic: The context**

The Czech Kingdom flourished in the middle ages and survived as a sovereign state until the beginning of the 17th century, when it fell under Habsburg rule. There was an opposition to the German elements in Bohemia and in the Habsburg monarchy at large.

During the 19th century ‘national revival’ Czechs and Slovaks constructed their identity in conscious opposition to the German identity as they shared a geographical, political and economic space within Austro-Hungarian Empire. Their pursuit of national sovereignty culminated in 1918 with the creation of the Czechoslovak Republic; the restoration of their statehood after three hundred years of Habsburg rule.
A growing number of Slovaks were dissatisfied with the dominant role of Czechs and this eventually led to the declaration of an independent Slovak state in 1939 and in 1968 the constitution of the Czechoslovak Socialist Republic as a federal state, and eventual separation of Czechoslovakia into independent Czechs and Slovak states in 1993 (Holy, 1996: 6).

A pivotal event in history would seem to have been the ‘Battle of the White Mountain’ in 1620, when the Czechs lost their independence to the Habsburg monarchy. The three hundred years before 1620 are ‘generally viewed as a period of national glory, (which) cannot be erased from the minds of subsequent generations…..By the same token, however 300 years of subjugation, followed by another 100 years of precarious struggle to reawaken the supine nation and its dormant spirit cannot but infect the fountain of inspiration and derange the compass needle.’ (Korbel quoted in Fry, 1979) The same author suggested that, ‘ as a result, a pattern seems to have developed: in times of assured statehood the Czech people strove for ideals of humanity; in times of peril, they lowered their heads to save the national body.’

This theme of contrasts in behaviour has been followed in the work of a Czech social anthropologist, Holy. He suggests that the myths, symbols and traditions which make possible the identification of people as members of the Czech nation and create Czech national consciousness are drawn upon two main images, that of the great Czech nation and that of the little Czech person as maly cesky clovek, a character so popular that he has acquired his own acronym, MCC. The little Czech is not motivated by great ideals. His/her life world is delineated by a family, work and close friends, and s/he approaches anything that lies outside it with caution and mistrust’ (Holy, 1996: 20).
Perceptions are that the Czech nation survived three hundred years of oppression not because of its heroes but because of the little Czechs who were the nation (Holy, 1996). This may have provided the background to the way in which Communist ideology was realised and practised to a greater degree in Czechoslovakia than elsewhere in the CEE. Under communism, the idea that ‘there were no individuals and family, only society’ (Holy 1996:20) was venerated as the public ideal. Society was divided into those who managed and those who were managed. The former were a very small group. “The number of those who made active decisions in the public sphere remained too small to override the image of it as a sphere in which the individual was the object of manipulation, pressure and coercion of the private sphere as that in which the individual was a free agent restricted only by the conventions of custom, economic possibility or morality” (Holy 1996:23) This, he suggests, were the major reasons for the difference in public and private morality (as well as modes of conduct; patterns of hospitality and socialising). This led to the idea that in the public sphere the Czech citizen was ‘living the lie’.

In Czechoslovakia in 1980s the opposition of intellectuals engaged in Charter 779 lacked the support of the working class in comparison with Poland where Solidarity was supported by millions (Macura, 1992).

‘A strong aspect of the little Czech is the ethos of egalitarianism. The little Czech, the representative of the everyday and the ordinary, is the role model and what is important as a role model is that he lacks individuality. This is partly reflected in the way Czechs characterise themselves, many of the characteristics used for their stereotype of the individual Czech are quite negative, unlike the highly positive ones they use to stereotype the Czech nation or group. Drawing on newspaper sources and opinion polls common

9 Charter 77’s Several Sentences were calling for democracy, respect of human rights and a dialogue with the government.
traits describing how Czechs perceive themselves as individuals are those of envy, conformity, often egotism and laziness. When referring to positive traits Czechs are proud of being hardworking and skilful and having a sense of humour and ‘members of an inherently democratic nation….highly cultured and well educated’ (Holy 1996:76-77).

It could be argued that the awareness of being Czech is tacit (Macura, 1992), grounded in the common historical fate of the collectivity, spoken of as ‘we’ but seldom the subject of an explicit discourse. During the course of interviews, the individuals often spoke of themselves as referring either to the Czech state or to the Czech nation. This emphasis on collectivity correlates with the view of individuality as undesirable, interfering with the possibility of unified action. However, other authors have also commented on such Czech national characteristics as those of ‘uniqueness and self sufficiency’ which can manifest itself in a feeling ‘that there is little or nothing to be learned from expertise and practice in other countries’ (Edwards and Lawrence, 2000:65). In other words, that there is a Czech way of doing things.

Since 1989 and the Velvet revolution, the national idea of returning to Europe, i.e. reclaiming the Czech nation’s position as a democratic nation at the centre of Europe has been a driving force behind local reforms. The idea was that a return to Europe and a market economy was associated with freeing Czech individuals to stop living the lie under oppressions and imposed regimes and to become free in a true sense. A longer tradition embodied in the identification of the Czech nation with the ideals and words of reformist Jan Hus (born around 1372) of ‘seek the truth, hear the truth, learn the truth, love the truth, speak the truth, hold the truth, and defend the truth until death’ (op. cit. Holy, 1996:40) was revived. This strand of morality gave rise to the motto, ‘the truth prevails’ which became part of the new Czech Republic’s coat of arms in 1918. This has been carried through in Havel’s ideas of ‘life in truth’. It could be argued that the state symbolism acquired distinct Hussite overtones where ‘the truth prevails’. How were these contradictory ideas
of ‘living a lie’ in communist Czechoslovakia and the longer-term tradition of ‘life in truth’ carried through in Czech culture and how did they impact on an understanding of notion of independence in the context of transition?

The idea was that a return to Europe and a market economy would free up Czech individuals to stop living the lie (Holy 1996) and become free. And a keystone of the market economy, was privatisation, and private ownership, ‘private ownership is not only the basis of a market economy but one of the main guarantees of human freedom in general’ (from Cesky denik 1992 quoted in Holy 1996:158).

In the Czech conceptualisation, the link between the market and freedom was constructed in a sense of freedom of an unconstrained expression of human nature that is linked to the concept of the market. If private property is constructed as part of human nature, only a free market economy based on private ownership of the means of production offers people real freedom, in contrast with the planned economy. However, the way in which the privatisation itself was carried out in the early 1990s has had a substantial impact on the way Czech society has developed. The process of privatisation out has been well covered elsewhere, (Sucher and Zelenka, 1998: Seal et al., 1996 ). Though initially hailed as a success, with ’80%’ of the economy in private hands by 1995, it led to much of the privatised economy being transferred to the nomenklatura that had run companies under the Communists, or to shadowy investment funds, such as the Harvard group, who transferred any assets elsewhere (Shepherd, 2000). At the same time, the legal framework was not set in place to guarantee any property rights. “Klaus had made close to the whole adult population into small shareholders (though voucher privatisation) but had failed to provide the legal setting which gave that property ownership meaning” (Shepherd 2000:84). There were several high-profile financial scandals (Fondler, 1996) and the mount of foreign direct investment
declined in the late 1990s. Surveys by international and local organisations indicated that bribery was an issue for local business (EBRD, 1999; *Prague Post*, 1999).

From some of the financial scandals of the 1990s, there were issues of informal networks of influence, the institution of ‘the people of the (inner) circle’ (Ledeneva 1998) where informal power relationships from the communist era persisted and access on unfair terms to parts of the economy was granted to favoured individuals. This may have an impact on the way auditors carry out their work for some clients.

In a state of the nation speech in 1997, Havel explained that ‘the prevalent opinion is that it pays off in this country to lie and to steal; that many politicians and civil servants are corruptible; that political parties, though they declare honest intentions in lofty words, are covertly manipulated by suspicious financial groupings’ (quoted in Shepherd 2000:47).

Czechs like other nations of the CEE region have undergone an enormous attitudinal transition. Stansky (2000) argued that ‘the path of change is leading through a process of reconciliation with a brutal and maladaptive past, one which has created the enormously complex shades that colour Czech society today. These forces can at least partially be traced to a past that centres on a survival strategy of adopting the path of least resistance, a strategy forced on a country located in a turbulent historical, cultural and geographic intersection of Central Europe’ (*Prague Post*, July 5th, 2000).

As the Czechs have sought to deal with their immediate past, new institutions have been established outside of government. There was no established profession of auditors or an association of auditors under communism (Sucher and Zelenka 1999). After the ‘Velvet revolution’, a local Chamber of Auditors was established in 1993. All registered auditors had to
be members of the Chamber (The Act on Auditors 1992). All the auditor interviewees were therefore members of the Chamber of Auditors.

**The Czech Republic: Insights from the interviews**

A core code that arose throughout the interviews, in discussing auditor independence, was that of ‘our reality’. Our reality seemed to be seen as a changing state of affairs between the recent, Communist, past and a future state, in some way based on that in other Western capitalist economies. It seemed to be perceived as a current, defective state (due to recent history) which would, in some future state, be much better. This core code was made manifest though such comments as the Czechs had only had ten years to develop an audit profession, whereas the UK had had over 100 years.

‘After all these years looking at rich countries, we are impatient to be rich. We use all possible ways how to do it. Some auditors are very dependant on their salary, so the better they are paid by the company the better they do the audit…..Not to be patient, not to create good prospects, hit and run, get rich quickly.’ (Academic)

Or as described by another interviewee who was commenting on the Czech character:

‘Czech Republic is in transition. Not all citizens or managers behave in a way acceptable to best practices. Managers want to be seen as best performers. There are still a lot of problems from the last regime. Zavist is a particular characteristic. Between people.’ (Ministry of Finance)

That particular interviewee then spoke for some time about the problems of employment and about the way he felt that people no longer feel responsible for what they do.
This perception of ‘our reality’ is part of the ‘author’ interpretation of the interviewees overall responses and self-reflection (Czarniawska, 1997). Similarly, the following dimensions of economics and rules are author interpretations.

There was a link in particular to the local perception of auditor independence as grounded in ‘economics’. The majority of interviewees referred to economic conditions in the country and in particular to difficult living conditions in defining auditor independence.

‘I think that it's fine if the independent auditor has lots of money or has some possibilities to have money as an accountant. Other view, if one has revenue then one is independent. If I have some financial reserves, I can be independent. It is not possible now of course because auditors in my profession need to have more money. They depend on their clients’ (Small Czech audit firm)

The older interviewees linked dependence on fees to auditor independence in the context of the current economic situation or to classic Ethical Code requirements regarding percentage of fees.

‘I see the question of independence anchored in personal and family situations so that the person must be organised in his own personal life. And the person should not be uniquely dependent only on the income from the audit firm and audit work. The person who does the audit should be more or less freely settled within his environment and be content. He should be choosing his partners, his clients, and also be able to say no sometime’ (Chamber of Auditors).
‘It is important that one firm, one client consists of only a small percentage of my fees. I think that we have approximately 120 clients and therefore, our independence is sufficient…Biggest client for me is as holding 8%, an exception’ (Medium-sized Czech audit firm).

‘Auditor is more independent in Germany because he is better paid. In this country you are dependent on the client for income’ (Chamber of Auditors, Ethics Committee).

These comments may be contrasted with those from one of the younger interviewee, who worked for an international firm of auditors,

‘The auditor cannot provide audit services for companies where he is involved in anyway. Problem same as in other countries. Auditor is paid by the company. This is the corridor of auditor independence. The auditor has to solve the problem that he would like to keep his client but he has to issue an opinion which is independent of the management of the company which gives a true view of the financial statements.’ (Czech audit manager, Big firm)

It is likely that there are cultural differences between those auditors who have commenced their training since the Velvet Revolution (as with this interviewee) and those, more than 40 years of age, who worked in companies before 1989. Overlaid with this is the organisational context for the particular auditor. The majority of our interviewees worked in small Czech audit firms and delineated surprisingly similar constructions of auditor independence.

Some of the interviewees also emphasised the rules basis of the auditor independence concept. Auditor independence was referred to as the regulation in the Code of Ethics:
‘There is the ethical code. Obviously the auditor must be independent as far as income is concerned. Must not be part of management or statutory body. One person cannot do tax and audit for the same company. Auditor independence is very important because you can get in a conflict with the law. In some ways activities of companies are on the border of legality’ (Medium-sized audit firm).

‘The basic is anchored in the ethical code. The basics of discretion are described in ethical code’ (Chamber of Auditors).

‘I am quite independent. It means I must obey all conditions of the law. I can’t take part in some companies where a member of the Board is my husband, and so on and so on. This is basic list for my business: section six, Code of Ethics’ (Small Czech audit firm).

Thoughts on local issues of corruption, the lack of general reflection and the idea of the ‘little Czech’ were sometimes bought together in the discussions,

‘(There was the) Clean Hands campaign. (However, the reaction was), I am not sure what level of business I can give. I don’t know what is ethical or not, and I don’t what to know anything as I would have to think about it.’ (Chamber of Auditors)

Other frames of reference were made explicit by interviewees. As far as is possible these voices of the other are represented as they are (Czarniawska, 1997). A key theme of interviewees’ perception of themselves as Czech was that of adaptability.
The frame of adaptability, which we have located within the core code of egalitarianism, could be drawn out of the interviewee comments in several ways. In defining themselves as Czech, interviewees suggested the following:

‘Czechs had to learn to survive, to be able to survive in a national memory...by doing favours you are helping each other.’ (Czech auditor)

‘(About being Czech)...flexibility, able to adapt and to improvise.’ (Czech auditor)

‘(We are) more creative and flexible than other people. Under Communism we needed to be creative because of surveillance.’ (Czech auditor)

The authors could relate this to pragmatism which was noted by another interviewee,

‘To be Czech is to be realistic, but sometimes sceptical, to be pragmatic....(This) strong focus on pragmatism can lead.... to the auditor stepping down to the requirements of the client instead of keeping face.’ (Czech bank)

In understanding how auditor independence might be played out locally, the interrelationship between following rules and adaptability needs to be comprehended. However, this was not a theme expressly addressed by these interviewers. Though some interview comments as follows might indicate how the interrelationship could work.

‘But advantages which should be reached by auditor for client is to find any misunderstandings and mistakes in the law. If I find any advantage for my client, for example a wrong regulation in the tax law, then (I) will use it.’ (Czech auditor, Big firm)
‘Simply the same everywhere. People are rules driven. If you have the opportunity for business law to behave in line with laws which unique, some of them just exploit some opportunities.’ (Czech equity analyst, Overseas bank)

This would seem to be a reference to the way in which though there might be a “rules oriented” culture, given the complexities and inconsistencies between laws, individuals might exploit these and be adaptive in their approach to complying with the rules. Another interviewee, in discussing how disciplinary procedures with auditors worked, argued that,

‘The shortcoming is that the appeal procedure (against disciplinary proceedings) is about 50% successful because of formal reasons….because if it is done formally incorrectly, the sinner will get away with it. (We have a saying in the Czech Republic), “The law is not justice but the other way round.”’ (Chamber of Auditors)

Another, Czech, interviewee referred to this as being ‘little Svejks.’ There was an emphasis on solving everything by observing all rules very carefully, but in a way that did not really observe the spirit of the rules.

This emphasis on being adaptive and yet observing the detail of rules seemed to be particularly Czech, both in how it was referred to and in how Czechs spoke about themselves. This was not a theme that emerged from the Polish interviews. In addition, unlike in Poland, there was little emphasis on the core code of freedom. These would seem to be essential differences between Polish and Czech auditors and would seem to flow from local identification of and with particular national histories.
In discussions of Czech culture, another theme that arose in interview was *Zavist*, which may be translated as envy. This was a trait that Czechs used in reflecting on themselves as Czechs. Often it was presented with some humour, with references to local jokes. In other times it was stated as a particular national trait,

‘Czech Republic is in transition. Not all citizens or managers behave in a way acceptable to best practices. Managers want to be seen as best performers. Still a lot of problems from the last regime. Envy is a particular characteristic between people.’ (Official, Ministry of Finance)

‘There exists a joke, Zavist. I always want a better life style than my neighbour.’ (Sole auditor, Chamber of Auditors)

One auditor interviewee suggested that this might translate into action over auditor independence as follows:

‘Truth is that client get hold of an auditor that is far away and not connected with the local environment. Why? Practical issue of Czech nature. People are afraid the auditor may be greedy or may communicate with someone, so clients may not want to disclose anything about themselves, even what is necessary. Because if disclose can make position very envious to others in the local areas’ (Auditor, Chamber of Auditors)

Another interviewee, a Czech academic who had researched local culture, suggested that:
‘Ask a Czech and they will always say negative things about themselves. (You) do not speak about yourself. (You expect) to be discovered. We don’t know ourselves well. We expect criticism.’ (Academic)

The last core code that we identified from interviewee discussion was that of private vs. professional life-worlds and the lack of barriers between the two. This was an implicit rather than an explicit theme. We suggest that this lack of barriers between the two was manifested in the comments on how small the country was, the informal networks of contacts and, to a lesser extent, in some of the Czech academic comments about how Czechs saw themselves.

‘I would think that at least one cause (of problems with creative interpretation of the law) is that this is a small country and it all happens in Prague. You go to a concert, play tennis and see the same faces.’ (Czech bank)

‘A Czech person is someone who thinks about themselves as very adaptive, able to be creative and learn new things rapidly...It is difficult for us to distinguish between personal and business self role. In comparison with German culture we can’t distinguish (for example in Germany at work you do not talk about the personal at work). We mix professional and private lives......We don’t like conflicts, (it is) difficult for us to be independent. The personal/professional mix means that it is difficult for us. (We are) not skilled in a personal way to be in conflict.’ (Academic)

’The informal agenda is huge. “Who knows whom.” Normally Prague is a big village. Everyone a school mate of everyone else. .....In the auditor’s profession there maybe 100s, everyone knows everybody. It is almost impossible to find anyone who is really independent.’ (Academic)
Another interviewee implied that this could be linked to the problems from Communism and the networks of relationships and which was necessary to economic existence. What has been described as an economy of favours (Ledeneva, 1998).

‘People knew that some things you can’t buy, so if need something in Communist times must have friends or power.’ (Academic).

Here it is perceived by local individuals that there is some higher value of independence which might not be possible in the small, interconnected, Czech community. Therefore ‘true’ auditor independence, whatever that might be, seems to be seen as, possibly, unobtainable.

**Conclusions**

This study presented how specific groups of professionals, living everyday lives in the context of transition in the CEE, construct their identities, and how these patterns mediate the construction of auditor independence in Poland and in the Czech Republic. Although some conclusions about how culture informs local understanding of independence and auditor independence constructs are drawn, the authors only suggest what is the impact of culture on other aspects of business and indeed other forms of lifeworlds of the individuals who participated in the study.

The study also highlighted processes that are involved in these constructions. These individuals are ‘voices’ of those under-represented within Western (European) academic writing. There is no doubt that the CEE region is perceived as marginal to the discursive construction of Europe as a whole, within the Western portion of the continent and further within the entire English-speaking world. Perhaps the ‘Iron curtain’ syndrome is echoed in academic writings in the West and as a consequence, a preference for stereotyping prevails?
We sought to go behind the notion of auditor independence, illuminating where possible, its relative and often ethnocentric construction. The study is emancipatory in a sense that it offers a critique of ideologies and socio-cultural process in the emerging professions in the CEE in which asymmetrical power relations and the exercise of power make their mark on people’s consciousness. The use of the notion of ‘auditor independence’ has been imported into local Codes through the IFAC Code. It appears however that these favourable definitions of Western reality are installed and interpreted differently locally. In other words, basic values and understandings are counteracting ethnocentrism and broader, taken-for-granted (Western) European cultural assumptions, e.g. affluent consumption may be perceived alternatively.

Experiences of the self in the CEE context which have been engendered through partition, or more immediate through the Second World War and the subsequent hostilities of the communist regime have ‘modified’ the set of dispositions associated with what it is to be Polish today or what it means to be Czech today. Further, hybridisation is the mixing of that which is already a hybrid. The CEE region with its very particular history ‘subjected to invasions and ideological domination’ is undergoing socio-economic and cultural (meta)change through on-going transition and the EU accession. Thus, the identity is in a flux of ‘negotiations’ with the past and belonging to Europe. It is very much a construction of the ‘other’ through which construction of the ‘self’ is achieved.

What emerges from the study is evidence that the concept of auditor independence in the CEE region has its grounding in the European laws and a rule-based approach to auditor independence prevails. In the CEE economies, where there is no immediate history of a market economy, no tradition of independent external auditing and there is no great demand for the provision of financial statements for outside investors, the concept of auditor independence is quite new.
Many professionals regard the concept as imported from the EU Directives and therefore somewhat alien to local traditions. Independence is also expressed through references to the current socio-economic and political situation (i.e. market recession) and the regulatory changes (i.e. increased thresholds for compulsory audits, foreign auditors). These realities have narrowed the perceived concept of auditor independence in large to its economic dimension.

What is visible in the CEE context is cultivation of the level of the image, appearance and surface over issues of ‘substance’ and that the emphasis on professionalism, institutionalised forms of expertise and professional knowledge become more important than ever before. For instance, laws have been implemented which mimic provisions of International Codes. A vacuum created by the loss of old rules and controls from the communist regime has not yet been filled by the substance of ethics and accountability. These processes which tend to create dependence and uncertainty as individuals and organisations lose (perceived) faith in their own (local) capacity, needs to be addressed in further research.

What also emerges is evidence that a construction of independence has different local interpretations. Independence in Poland is related to overplayed individualism, whereas in the Czech Republic it is related to collectivism and underplayed individualism. Also, in Poland, the concept of auditor independence is perceived as related to a notion of freedom, as a state of being free from any influences and further free to do what one wants (freedom as a reference to human rights).

The echoes from the past, especially a lack of accountability relations implanted over the last fifty years, are still present in people’s mentality and approach to work in the CEE; a baggage from communism which affects independence. Changes in mentality are inevitable so as to transcend ghosts from the past, i.e. passivity, negativity, familiarity threats, economy of favours. Politicians
are often mistrusted and the credibility of the state remains low in the context of lobbying processes and a climate of bribing between the political and professional spheres. Time is required so as to replace short-termism and a consumption approach to ‘catch up’ with the average European standard of living with professionalism and long-term thinking. Marketing the cultural change (notions as new economy, customer-oriented change, and market value) is a part of the new ideas and values as well as images transmuted to the CEE in the beginning of the 1990s.

This study contributes to an intellectualisation of working with a cultural understanding. A thin description of culture is supplemented with insights towards ‘thick description’ examining complex layers of meanings coming from the anthropological tradition (here Geertz, 1973). In that sense, we call into question the taken-for-granted understandings and parochialism of prior cultural research in accounting and management.
Appendix 1

List of the interviewees – Poland

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Affiliation</th>
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<tbody>
<tr>
<td>Audit partner</td>
<td>Small Polish audit firm</td>
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<tr>
<td>Audit partner</td>
<td>Small Polish audit firm</td>
</tr>
<tr>
<td>Audit partner</td>
<td>Medium-sized Polish audit firm</td>
</tr>
<tr>
<td>Audit partner</td>
<td>Medium-sized audit firm</td>
</tr>
<tr>
<td>Academic and Member of the Audit Committee in Polish company</td>
<td>University of Gdansk</td>
</tr>
<tr>
<td>Deputy Director of Corporate Finance Department</td>
<td>Polish Securities and Exchange Commission</td>
</tr>
<tr>
<td>Audit partner</td>
<td>Big Firm</td>
</tr>
<tr>
<td>Audit manager</td>
<td>Big Firm</td>
</tr>
<tr>
<td>President</td>
<td>Chamber of Auditors (KIBR)</td>
</tr>
<tr>
<td>Head of Ethics Committee</td>
<td>KIBR</td>
</tr>
<tr>
<td>Ethics Committee, audit partner</td>
<td>KIBR</td>
</tr>
<tr>
<td></td>
<td>Small Polish audit firm</td>
</tr>
<tr>
<td>President</td>
<td>Polish Accountants Association (SKwP)</td>
</tr>
<tr>
<td>Financial analyst</td>
<td>Overseas Bank</td>
</tr>
<tr>
<td>Tax department</td>
<td>Large Bank</td>
</tr>
<tr>
<td>Manager of Group Monitoring</td>
<td>Large Bank</td>
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<tr>
<td>Director of Equity Group</td>
<td>Investment Bank</td>
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</table>

List of the interviewees – the Czech Republic

<table>
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<tr>
<th>Interviewee</th>
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<tbody>
<tr>
<td>Audit partner</td>
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<td>Small Czech audit firm</td>
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<tr>
<td>Audit partner</td>
<td>Small Czech audit firm</td>
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<tr>
<td>Audit partner</td>
<td>Small Czech audit firm</td>
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<tr>
<td>Audit partner</td>
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</tr>
<tr>
<td>Sole auditor</td>
<td>Sole audit practice</td>
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<tr>
<td>Audit partner</td>
<td>Medium-sized Czech audit firm</td>
</tr>
<tr>
<td>Audit partner</td>
<td>Large Czech audit firm</td>
</tr>
<tr>
<td>Academic and Head of Ethics committee</td>
<td>Chamber of Auditors</td>
</tr>
<tr>
<td>Audit partner and President until November 2001</td>
<td>Chamber of Auditors</td>
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<tr>
<td>Audit manager and member of international committee</td>
<td>Chamber of Auditors</td>
</tr>
<tr>
<td>Equity analyst</td>
<td>Overseas bank</td>
</tr>
<tr>
<td>Head of risk management</td>
<td>Large bank</td>
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<tr>
<td>Head of banking regulation and supervision</td>
<td>National Bank</td>
</tr>
<tr>
<td>Academic</td>
<td>Prague School of Economics</td>
</tr>
<tr>
<td>Academic/Culture researcher</td>
<td>Prague School of Economics</td>
</tr>
<tr>
<td>Deputy Minister of Finance responsible for Law on Audit</td>
<td>Ministry of Finance, Czech republic</td>
</tr>
<tr>
<td>Finance Director</td>
<td>Large Czech company</td>
</tr>
</tbody>
</table>
Appendix 2: An example of the interview schedule

**Background**

Personal background

How would you summarise the service provided by your firm/practice?

**General Issues**

How competitive is the audit market for you?

How do you comply with the Chamber of Auditors auditing standards? Are there any particular areas that cause problems?

How would you describe the concept of auditor independence?

How important do you believe auditor independence to be?

Can you give specific examples from your knowledge of other auditors where there may have been problems with auditor independence?

How do you ensure that your staff is fully informed about all aspects of the requirements on auditor independence in the Code of Ethics?

**Auditor Independence Issues (generally)**

How do you believe auditor independence works in general in CR/PL given recent history?

To what extent do you consider particular general economic issues in CR/PL have any impact on your ability to be independent?

To what extent do your clients want you to be independent? What do you think clients understand as auditor independence?

Do you think there any particular problems in the CR/PL in expressing an adverse opinion on a client?

Have you heard about the new IFAC framework on auditor independence and if so how do you think such a principles based approach could work in CR/PL?

Do you think that a detailed rule based approach to auditor independence is preferable in the CR/PL and if so why?

What general problems do you see with auditor independence (i.e. not just in CR/PL)?

**Auditor Independence Issues: Cultural, Historic and Socio-Economic Aspects**

What does it mean, in your view, to be Czech/Polsich?

What cultural values are important to you first as a professional and second to you as a private person?
In the professional context, what characterises Czech/Polish ways of doing business? Do young people have a different approach to business conduct than more experienced, older people? Can you suggest any specific aspects of Czech/Polish culture, history or current economic conditions that may impact on auditor independence?
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Zakon o Auditorech [Act on Auditors], 1992 Coll.
Diagram 1: Data analysis process

INTERVIEW TRANSCRIPTS

LITERATURE REVIEW

CULTURE

ISSUES/ CONTEXT

AI DEFINITION
<table>
<thead>
<tr>
<th>Core codes</th>
<th>Frames of reference</th>
<th>AI dimensions</th>
<th>CEE location</th>
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<tbody>
<tr>
<td>‘Our reality’</td>
<td>Recent history</td>
<td>Rule-based</td>
<td>Poland/Czech Republic</td>
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<td></td>
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<td></td>
<td>Individual vs state</td>
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<td>Socio-economic conditions</td>
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<td>Freedom</td>
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<td>Freedom-based</td>
<td>Poland</td>
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<tr>
<td>Individualism</td>
<td>Creativity</td>
<td>Local interpretation of de jure</td>
<td>Poland</td>
</tr>
<tr>
<td></td>
<td>Pride</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egalitarianism</td>
<td>Adaptability</td>
<td>Local interpretation of de jure</td>
<td>Czech Republic</td>
</tr>
<tr>
<td>Private vs professional lifeworlds</td>
<td>Self through other (Lack of) barriers Informal networking</td>
<td>‘Bound by conflicts’</td>
<td>Poland/Czech Republic</td>
</tr>
</tbody>
</table>