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Ethical Standards: Theoretical and Problematic Issues

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ABSTRACT

This study examined the ethical standards guiding the professional accountants in both public and private sectors. Ethical behaviour is an essential and expected trait for professional accountants. The society places high premium of trust and expectation from the professional accountants and auditors as such people need to have confidence in the financial reports being prepared/ audited by them in making an informed decision. It's imperative therefore, that the information being provided by accountants and auditors should be meaningfully efficient, reliable, and realistic and are unbiased. The objective of the study was to ascertain the problematic and theoretical issues of ethical professional standards. Cases of unethical practices were sited and it is recommended that a harder punishment should be enforced on erring professional accountants and auditors in Nigeria as in other countries when they do not comply with laws and regulations guiding the professionals' operations.

Keywords: Ethics, Code of Ethics, Ethical Theories, Stakeholder Theory, Ethical Issues

1.0. INTRODUCTION

1.1. Background of Study

Ethics in professional accounting are of utmost importance. The widespread corruption in the society and the failure of organizations in every part of the world have, according to Oraka and Okegbe (2015), once more increased the need for accounting professionals to adhere strictly to the codes of professional ethics prescribed by international accounting bodies.

Accountants have obligations to stakeholders such as shareholders, creditors, employees, suppliers, the government, the accounting profession and public at large. Behaving ethically is, therefore, an essential and expected trait. Thus, an accountant is responsible for the consequences of his moral choices not only for his own life but also for the lives of other people.

There are a number of situations in which the guidelines or ethical standards appear not too relevant. According to Akadakpo and Enofe (2013), in such situations, accountants attempt to resolve such issues by choosing from their actions. In resolving conflict of interest, situations that border on loss of revenue or job, personal interest and beliefs cultural background and double standards in the application of sanctions, many accountants are likely to do so without reference to the expectations of the accountancy profession. The issue of what is wrong or right comes up on a daily basis and the practicing accountant, students of accounting, preparer of accounts, accountants planning to set up professional practice, as well as accountants not in practice have obligation to conduct themselves within the limits of good ethical standards (Akadakpo & Enofe, 2013).

As Nigeria progresses in her vision to become one of the top 20 economies in the world by the year 2020, Salaudeen, Ibikunle and Chima (2015) stated that one prevailing issue that remains on the front flame is how to build investors' confidence in the national economy through ethical accounting and auditing standards that enhances transparent financial reporting.

Ethical standards set by professional accounting bodies in Nigeria, ICAN and ANAN, can act to supercharge the engine of morality and good conducts in the discharge of auditing functions in Nigeria.

Efforts are being made to introduce and enforce the practice of ethical standards by the regulatory bodies; however, strict adherence to the standards has been a problem (Gowthorpe & Amat, 2005 as cited in Akadakpo & Enofe, 2013).

Over years, allegations and scandals of unethical conduct have been directed towards managers in general and accountants/auditors in particular in virtually all segments of the society. It is, however, observed that globally including Nigeria there is increasing attraction between the accounting firms and companies.

However, any organization that lacks ethical considerations may not survive for long time to achieve its desired goals and objectives of its stakeholder. If investors lose confidence in the reliability of numbers that are presented to the market, it will suffer grievously (Oraka and Okegbe, 2015).

1.2. Statement of the Problem

Even though recognized professional accounting bodies in Nigeria, like ICAN and ANAN, are trying very hard to ensure best practice in the auditing profession via the enforcement of professional code of conduct for their members, the strict observance of such codes is still questionable. Since there is growing criticism of accountants both in public practice and in private sectors, it is of significance to embark on a study such as this to further explore the problematic issues faced by the professional accountants with reference to the ethical standards. The research question raised to address this problem is: do ethics have much impact on the practice of accounting profession in Nigeria, if not, what are the theoretical and problematical issues?

1.3. Objectives of the Study

The objectives of this study include:

i. To ascertain the problematic issues bordering on the accounting profession with reference to ethical standards; and

ii. To evaluate the theoretical issues bordering on the accounting profession with reference to ethical standards.

2.0. LITERATURE REVIEW

2.1. Conceptual Framework

Ethics which is the same with Latin word "morals" as a meaning and coming from "ethikos" in Greek goes back to Greek philosopher Aristotle before 2500 years (Guney & Bozkurt, 2012).

As posited by Ast Raupeliene (2007), the word "ethos" meant in the beginning a usual place of living (in the poems of Homer) later it acquired new meanings: habits, temperament, custom, character". Ast Raupeliene (2007) stated that following the notion "ethos" Aristotle has created the adjective "ethicos" (ethical).

According to Armstrong (2006), the ethics definition associates with ethical standards in three ways: human conduct as professionals, the values that govern their behaviour, and the ethical standards of the organisation.

Onyebuchi (2011) stated that since the professional accountants are increasingly facing complex challenges in both business and professional environments as a result of the events of the last decade, pressures for more ethical behavior are growing in the business environment. This is true because the accounting profession serves the public interest; the professional accountants need to understand what is expected of them in order to respond effectively in the future. During the financial scandals of the early 2000s, investors and creditors lost most of their investment which range from millions to billions of dollars. As a result, the U.S. Congress passed the Sarbanes-Oxley Act of 2002. This act, popularly known as Sarbanes-Oxley is one of the most important laws affecting U.S. companies in this century (Onyebuchi, 2011).

Homa (2015) sees ethics as a set or theory, of moral principles or values. It focuses on dealing with what is good or bad, right or wrong, and a person's duties or obligations. Ethics can be the set of principles held by an individual or a group. Ethical beliefs contain two parts, a subject (the action) and a predicate (description of subject)

Codes of ethics or ethical standards are important since they implicitly set limits or unethical behaviour and are intended to offer guidance in ambiguous situations. Code of ethics can perform several organisational functions, such as making explicitly the ethical values that were previously unstated or unclear, alert employees as to what actions are unethical and unpunishable, and helps firms shift accountability of actions from organisation to individual (Prasad, 2012).

The main drive of accounting ethics and ethical values is the upholding of professionalism and good practice. The breach of ethical rules in the practice of corporate financial reporting is not fair to users and such action can jeopardize the main objective of the financial reports (Gowthorpe & Amat, 2005 as cited in Akadakpo & Enofe, 2013).

According to Prasad (2012), ethics may be described as a systematic attempt to understand moral concepts and to propose and defend principles and theories regarding right and wrong behaviour. Prasad defined ethical framework as a set of norms and principles that serves as guidance for individual actions.

According to the Institute of Internal Auditors- North America (n.d.), the Code of Ethics states the principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities.

Khani (2014) worked on the Role of Professional Ethics in Accounting and Audit and found out that professional ethics is a necessity for accounting job (accounting and audit). He defined ethics as a branch of philosophy considering value based on human behavior to truth or falseness of the acts or good or evil outcomes of these acts. In a broader definition, ethics is a set of ethical values.

Guney and Bozkurt (2012), in their study on Problems and Ethical Attitudes of Accounting Professionals toward Accounting Errors and Frauds: A Model Practice in City of Erzurum found out that people may violate professionally established rules due to such reasons as work stress, density, neglect and similar other reasons and this brings the notion of mistake. Accounting that frequently comes across such kind of cases is faced with losing occupational prestige of members of a profession. Within this context, members of profession have difficulty in producing solution for the problems encountered today. They opined that mistake, cheat and ethics notions in accounting are the major variables.

Adeyemi and Fagbemi (2011) conducted a research on the Perception of Ethics in Auditing Profession in Nigeria. To provide evidence on ethics, legitimacy of auditing profession and the future outlook of the profession in Nigeria, they obtained responses from external auditors, industry and academic accountants as well as auditing students.

Findings from their study showed that there is no significant difference in the perception of respondent groups on the need for auditors to abide by high ethical standard and the need to shape the views of new entrants to the profession.

Akadakpo and Enofe (2013) examined if accounting ethics have much impact on the practice of accounting profession in Nigeria, the factors that make the accountants breach accounting rules, and if ethical codes of conduct address all the issues that border on ethical practices. Their findings revealed that apart from accounting ethics, there are other major influences which accountants believe have impact on their professional conducts like policies and rules of companies where accountants work. Religion was found not to have major influence in the professional conduct of accountants. The legal system and societal value systems also inter-played in the accountants' professional conduct.

In their review study, Salaudeen et al (2015) examined unethical accounting practice and financial reporting quality in Nigeria. One of the key issues in their findings was that extended audit tenure could impair auditor's independence and ability to employ professional skepticism on matters at their disposal. Non adherence to the spirit and letter of corporate governance was also responsible for the corporate scandals.

2.2. Theoretical Framework

According to Homa (2015), there are five Ethical Theories namely: Utilitarianism, Egoism, Deontological Ethics, Categorical Imperative and Virtue Ethics.

Utilitarianism focuses on the question of whether the action benefits the people more than it harms them. It takes into consideration the impact by everyone, including the individual. An individual's self-interests are cast aside. All actions recommended are done to enhance the good of the largest number of people (Duska, 2011).

Egoism focuses on whether the action is good for us. Concerns of oneself take priority over what might be best for others. Does not consider what is fair to all human beings, but focuses on the belief that people should act in their best interest (Duska, 2011).

Deontological Ethics focus on fairness. Fairness takes priority over any consequences the actions would have. The overall key points to this theory are a focus on fairness, rights, commitments, and doing the right thing. People cannot think only of their own wants and desires. They must think of others (Duska, 2011).

Categorical Imperative goes along with deontological theory. Focus on people being treated fairly. There is also a focus on leading by example. If you want others to act ethically, then you must also act ethically. This theory shows that all people are equal and must abide by the same rules (Duska, 2011).

Virtue Ethics focus on character traits that are acknowledged across cultures. There is a focus on reaching the end goal or purpose to achieve full potential. Focus is on virtues and moral character and not on duties, rules, or consequences. The emphasis has been taken away from the consequences of the actions, and looks at the kind of person who is doing the action (Sadler, 2011).

2.3. Relationship between Ethical Theories and Accounting and Auditing

Utilitarianism leans towards companies that provide goods and services while doing the least harm, and condemns companies that cause more harm than benefit to others.

Egoism creates complications because there are going to be times within your career when you are not the best person to help a client. You have to make the decision to send them to another accountant and by doing so you will lose their business. Doing this is not the best decision for you, but it is the best decision for the client (Duska, 2011).

Deontological Ethics applies to accountants and auditors because they have to maintain a fair and consistent relationship with all their clients. They must also ensure that they are following through with their commitments. If they do not do this, clients will lose trust in them, and it will be difficult for them to find new clients.

Categorical Imperative relates to auditors because if they are upholding a high moral standard, they will encourage the people working for them, as well as their clients, to do so as well (Duska, 2011).

Virtue Ethics applies to accountants because it says that they should be all they can be in their profession. They should be the best accountant possible by being truthful, avoiding harming others, following through on commitments, and having integrity. There are times when a decision will involve multiple theories, and this will often cause a conflict about which theory to follow.

2.4. Stewardship Theory

This study, however, uses the stewardship theory as a theoretical background for examining the impact of ethical professional standards on financial reporting. The contractual relationship between the stakeholders, who are the owners of the company, and the board of directors and external auditors, is purely stewardship relationship. Stewardship theory provides a natural backdrop of this study because, according to Salaudeen et al (2015), financial reporting concerns arose as result of divorce of company from owners of company and as such those who are entrusted to oversee and manage the company on behalf of the owners are expected to render stewardship of their responsibilities i.e. financial reports which must be validited by independence professional party (External Auditors). Consequently, those users who desire to assess the stewardship of management do so in order that they take economic decisions; these decisions may include, for instance, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management. The stewardship objective has been considered as being about information that provides a foundation for a constructive dialogue between management and investors. This is deemed to be essential response to the development of a contemporary company and a fundamental building block of corporate financial reporting. It is also advocated that, whilst this dialogue takes place in many ways and in various media, reporting accountants and external auditors plays a vital role in shaping this dialogue (Accounting Standards Board, 2007).

2.5. Fundamental Ethical Principles

According to International Federation of Accountants (2006) in its code of ethics for professional accountants, a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. This code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. The conceptual framework provides guidance on fundamental ethical principles.

Professional accountants are required to apply this conceptual framework to identify threats to compliance with the fundamental principles, to evaluate their significance and, if such threats are other than **clearly insignificant**, to apply safeguards to eliminate them or reduce them to an acceptable level such that compliance with the fundamental principles is not compromised.

A professional accountant is required to comply with the following fundamental principles:

(a) Integrity

The principle of integrity imposes an obligation on all Chartered Accountants to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.

(b) Objectivity

A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments. The principle of objectivity imposes an obligation on Chartered Accountants to be fair, intellectually honest and free of conflicts of interest. Regardless of service or capacity, Chartered Accountants should protect the integrity of their professional services, and maintain objectivity in their judgment. According to Izedonmi (2012), the principle of objectivity imposes a serious obligation on all accountants whether in private practice or industry to avoid jobs, assignments, situations, relationships and situations that are capable of compromising their professional judgement due to either coercion, undue influence from people, conflict of interest or even bias.

(c) Independence

Independence is an attitude of mind characterized by integrity and objectivity in approach to audit assignment. Atu (n.d.) stated that Auditor's independence means that when performing his statutory duties, an auditor considers the interest of third parties, most of whom are unknown to him who will be placing reliance on the accuracy of financial statements prepared by him, to be of paramount importance.

According to the Institute of Chartered Accountants of Nigeria (ICAN) (2009), Independence of an Auditor is of two types:

i. Independence of Mind

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

ii. Independence in Appearance.

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm, or a member of the assurance team's integrity, objectivity or professional skepticism had been compromised.

As opined by Izedonmi (2012), independence is a very crucial issue in enhancing the auditor's objectivity in his findings and opinions expressed in financial statements. Therefore, not only must the auditor be independent in fact and in attitude of mind, he must also be seen to be independent.

(d) Professional Competence and Due Care

A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

(e) Confidentiality

A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties. It is not always possible to conduct evaluations without identifying information, such as names.

ICAN (2009) stated that the principle of confidentiality imposes an obligation on Chartered Accountants to refrain from: Disclosing to persons outside the firm and on a need to know basis to persons within the firm or employing organization, confidential information acquired as a result of professional and business relationships without proper and specific authority unless there is a legal or professional right or duty to disclose such

(f) Professional Behavior

A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

The code specifically stated that professional accountants should take qualitative and quantitative factors into account when considering the significance of a threat. If the professional accountant cannot implement appropriate safeguards, the professional accountant should decline or discontinue the specific professional service involved or where necessary resign from the client (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business).

A professional accountant may inadvertently violate a provision of this Code. Such an inadvertent violation, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.

(g) Conformity to Technical Standard

According to Atu (2009), audit work should be done with due professional skill, care and caution in conformity with approved auditing standards and statutory provisions and other regulatory and operational guidelines such as SAS, IAS, AG, IAG, etc.

(h) Advertisement for Professional Work

Accountants are not expected to advertise their services and skill unfairly. No one should give undue prominence to his signboard or advertise in any media unless: recruiting staff for his firm; recruiting staff for his client; acting for client in buying and selling of properties; opening a new office or changing the address of the practice; announcing the appointment of members to important post; and placing congratulatory messages or obituaries in the dailies in respect of members (Atu, n.d.).

(i) Retention of Working Papers

Working papers should be retained as follows:

- auditing working papers 7 years
- taxation working papers 7 years
- files of chargeable assets 11 years
- files of members as trustee 7 years
- files for voluntary liquidation 5 years

(j) Client's Money

Client's money should be paid in a separate bank account and never to the accountant's personal or firm account.

2.6. Threats and Safeguards

Threats

Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. According to IFAC (2006), many threats fall into the following categories:

(a) Self-Interest Threats, which may occur as a result of the financial or other interests of a professional accountant or of an immediate or close family member;
(b) Self-Review Threats, which may occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment;
(c) Advocacy Threats, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;
(d) Familiarity Threats, which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others; and
(e) Intimidation Threats, which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.

Safeguards
Safeguards that may eliminate or reduce such threats to an acceptable level fall into two broad categories:
(a) Safeguards created by the profession, legislation or regulation; and
(b) Safeguards in the work environment.
Safeguards created by the profession, legislation or regulation include, but are not restricted to:
(a) Educational, training and experience requirements for entry into the profession.
(b) Continuing professional development requirements.
(c) Corporate governance regulations.
(d) Professional standards.
(e) Professional or regulatory monitoring and disciplinary procedures.
(f) External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

2.7. Ethical Issues
The collapse of companies such as Enron, WorldCom and Global Crossing in the USA, HIH Insurance and OneTel in Australia, and Parmalat in Italy has led to a loss of confidence by the investing public in the system of financial reporting and accountability. A major factor in this loss of confidence, according to Jacklin, Cooper, Leung & Dellaportas (2007), was the unprecedented implosion of one of the then "Big 5" accounting firms, Arthur Andersen, with the loss of 85,000 jobs worldwide and the loss of public trust in the accounting profession that accompanied it. These developments led to the promulgation of the Sarbanes-Oxley Act of 2002 in the USA and similar legislation such as the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 in Australia.
Most financial scandals are the result of errors in judgement. This has increasingly been shown in corporate collapses and audit failures associated with organisations such as WorldCom in the USA and HIH Insurance in Australia, where a lack of attention has been given to the ethical and professional values of honesty, integrity, objectivity, due care and the commitment to the public interest before one's own interests (Jacklin, Cooper, Leung and Dellaportas, 2007).
i. The Public Interest versus Self Interest. Increased awareness of the public interest is considered to be an important ethical issue that challenges the professional accountant in today's environment. The duty to serve society and the public is known as the "public interest". The notion of the public interest implies that the professional accountant's responsibility is not exclusive to the needs of an individual client, employer, nor themselves, but all stakeholders (lenders, governments, employees, investors, the business and financial community and others who rely on the work of professional accountants) who rely on the reports prepared and audited by them.
The accounting profession has been criticized for seeking to protect its self interest rather than the interests of third parties. Self interest threats arise where there is a conflict of personal interest and the interests of those served by the professional, leading to the possibility of compromise (Jackling et al, 2007).
ii. Ethical Sensitivity of Practitioners. Ethical sensitivity is based on the premise that a dilemma is recognised as an ethical issue, or at least containing an ethical component. According to Jackling et al

(2007), empirical research relates to ethical sensitivity (ability to identify and recognise ethical issues when they arise) and moral reasoning judgement (relating to how and why ethical decisions are made). If professionals are sensitive to ethical issues, then the decision-maker is likely to use moral dimensions in resolving the dilemma, rather than take a heuristic approach such as profit maximisation.

The professional must, therefore, recognise the ethical component in a dilemma before an ethical decision can be made. The problem for professionals is that ethical issues are often hidden and they often lack the ethical sensitivity to recognise ethical dilemmas when they arise (Jackling et al, 2007).

iii. Ethics as Moral Reasoning. The most widely known work in the area of moral reasoning is that of Kohlberg (1969), who developed the theory of cognitive moral reasoning and development. According to Jackling et al (2007), Kohlberg's theory is concerned with how judgements are made and why one formulates judgement. Generally, higher levels of moral reasoning are indicative of higher ethical standards. In the case of auditors, researchers discovered a number of positive associations. For example, Ponemon (1993a) (as cited in Jackling et al (2007) found that as auditors' level of moral reasoning increases, so do their assessments of audit risk and prediction regarding the detection of a material accounting error. Auditors with high moral reasoning tend to be more resistant to client pressure, whereas auditors with lower levels of moral reasoning respond to economic variables and self interest.

2.8. Case Studies of Unethical Practices

According to Salaudeen et al (2015), Akintola Williams Deloitte (AWD) was the External Auditor to Afribank Plc. In the year 2006, AWD was accused of falsification of financial reports and cosmetic accounting of Afribank plc by the then Managing Director of the bank who purported that the Board of Directors colluded with its auditors to cook the books of accounts of the company (*ThisDay Newspaper*, 16 October (2009). In sharp contention, AWD denied their involvement in any unethical practices of such:

> *'In our thirty years of existence, this is the first time someone would accuse us of modifying our report. We apply the rule 100 per cent; we do not bend the rules at all. Our firm has a world renowned in-house audit approach system called Deloitte audit that ensures our audits are carried out in full compliance with all applicable audit and accounting standards both local and international'. (ThisDay Newspaper,* 16 October, 2009*.)*

In this case, AWD was moulded by an organizational philosophy which highlighted high earnings and in which the audit firms put the best interests of their client above their own professional code of best practice. Consequently, (AWD) was ordered to pay a penalty of ₦20 million for its failure to handle the financial statements of the bank with due professional diligence and care.

Enron's case observed in America in 2001 and non-ethical operations of Arthur Andersen being one of the 5 biggest independent inspection companies in the world known to approve all non-ethical accounting transactions of this company and even suggest itself have shown that ethical problems about the accounting profession recently should be examined again (Buney and Bozcurt, 2012).

Xerox, Dynegy, WorldCom, Global Crossing, Tyco International, Qwest Communications and Adelphia Communications cases observed in America are among the examples to be given for ethical problems about the accounting profession (Buney and Bozcurt, 2012).

3.0. CONCLUSION AND RECOMMENDATION

3.1. Conclusion

The issue of unethical practice in accounting and auditing profession has become a global issue and this has impacted negatively on financial reports as such has eroded the public confidence on financial reports. Professional accountants and auditors have been found wanting of not adhering to ethical profession standards in discharging their duties and this has resulted to serious corporate scandals as evidence in our case studies (Salaudeen et al, 2015). There is the need for adherence and enforcement of high ethical standard for members of the profession which will go a long way in maintaining diligence in the way members of the profession carry out their duties.

3.2. Recommendations

To ensure that auditors and professional accountants abide by professional ethical standards and guidelines as enshrined and recommended in their professional body codes and other regulatory authorities, the following policy recommendations are prescribed:

1. That extended audit tenure should be discouraged by corporate organization and regulatory bodies in Nigeria;
2. The composition of the Board of Directors and Audit Committees should be made up of people with corporate experience, proven integrity and financial expertise for member of audit committees especially the chairman;
3. There should be more rigorous quality control measures by different audit firms and emphasis should be placed on quality monitoring by the professional accounting bodies in Nigeria; and
4. Accounting professional bodies should recommend that a harder punishment should be enforced on erring auditors in Nigeria as in other countries.

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