THE ROLE OF PROFESSIONAL ETHICS IN ACCOUNTING AND AUDIT

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Ethics is a comprehensive issue covering all aspects of life. Accounting includes accounting services and is one of the jobs based on discipline. The profession is associated with issues of property and assets of people in the society. Ethical principles or ethics comprise sets of spiritual values and principles. All individuals have such set of values; and they also operate in professional callings. If accountants and auditors working in the business environment are not guided by professional ethics, they may become harm to those who trust them. Thus, accounting professional ethics is important to accountants and professional auditors and those involved in auditing and accounting. The present study explored the necessity of professional ethics in accounting (accounting and audit). Accounting ethics like any accounting product needs accounting and audit. The role and duty of professional accountants to society, capital holders and other people required that they observe all principles morality in all aspects and resort to professional behaviour regulation to achieve acceptance social respect as the requirement of activity in each specialized job.

Keywords: Accounting, accounting profession, audit ethics, professional ethics

INTRODUCTION
Accounting is a valuable knowledge and main factor of market economy. No economic activity is possible without relying on accounting. Accounting refers to the presentation of information regarding financial situation and operation profitability. This knowledge is the basis of financial and monetary systems of countries and plays an important role in “supervision” to create responsiveness and clarification in an economy. The high level of fraud accountants and auditors, managers or executive authorities’ engage in, lead to ambiguities about honesty and trust in professional accountants. The main issue in accounting profession is the exclusive advantage of legal audit that official auditors have; and the responsiveness requirement of this exclusive advantage. Via its superior features, the profession has autonomy, integrity and keeps and protects public benefits. The relationship between these features and professional behaviour of accountants is the main factors of most of the criticisms of the profession in the past three decades. 20th century accounting practice is dependent upon ethical issues and ethics; but this claim is doubted by regulators, law makers, investors and stockholders (Pourianasab, 2000). This study is thus conducted with a view to understanding the concept of ethics and the necessity of observing ethical issues in accounting and audit profession

CONCEPT OF ETHICS
Ethics is a branch of philosophy that considers values based on human behaviour to truth or falsity of acts or good or evil outcomes of these acts (Asif, 2010). In a broader sense, ethics is a set of ethical values. Individuals have values which they take into consideration in their dealings with others. Philosophers, religious institutions and other groups define ideal
ethical values by various methods. Some examples of ethical values determined at executional level include rules, religious teaching, ethical principles, law in commerce for professional, industrial groups and professional ethics regulations in organizations.

**Professional Ethics**
The formation of professions in an economy arose from labour of division in social life and specialization of affairs in human communities. The passage of time, increased development of knowledge and technology, and complexity of social relations led to development of professions. Employees play important roles in improving welfare of societies; they provide or deliver services and create trust, which informs job continuity, business sustainability, society satisfaction and societal acceptance. Society acceptance is the main capital and pivot of the continuance of every profession. Society satisfaction and societal acceptance are easier achieved when services are delivered based on ethical standards and principles. The system of each job is a combination of professional rules. The behavioural and ethical regulations of jobs are also important policies. Professional ethics is the knowledge defining appropriate behaviour in a job and presents practical guide to determine responsibilities (HosseiniKahnuj, 2013). Most recognized jobs formulate applied standards and principles for their professional ethics. The medical practitioners, engineers, lawyers, accountants, auditors and journalists all have professional ethics that regulate their professional conduct. The common features in these professions are: (1) definition of entry qualification; (2) complex technical and professional knowledge; (3) responsibility in presenting services to society; and (4) need to achieve acceptability and trust. These professions have entrenched ethical principles that guide behavioural norms.

Ethics also establish acceptable and unacceptable behaviours in social interactions (Duska et al., 2006). The main issue of professional rules is norms. These norms are issued based on accepted values and are described in terms fairness, justness, rightness or wrongness. Max Weber divided ethics into three major parts: Ethics in family and private life; ethics in economic life and ethics in politics and social relations. Professional ethics in accounting and audit is a subset of business ethics, which is in turn, a subset of ethics in economic life (Bayat, 2008).

**Accounting and Audit Profession**
Accounting and audit play effective roles in business; and are accorded a prime place in economic activities. The accounting and audit profession dates back to early civilization. Indeed, when trading started, recording transactions and reporting was taken into attention. In ancient civilizations, tax and assets of government were maintained. In 3600 years before and in ancient civilization of Sumerians, there was a comprehensive financial system indicating the amount of grains, livestock and the estates of government. In ancient civilizations of Lidi, Iran and Egypt, incomes and expenditures of government were kept carefully. In the 13th and 14th centuries, and with the growth of industry, trade and banking, considerable progress was made in holding accounts. Finally, in 1800, balance sheet and profit and loss statement was common. By separating ownership of enterprises from the management and establishment of partnerships, accounting took on increased importance (Shalile, 2004).

**Ethics in Accounting and Auditing**
The scandals of financial fraud and collapse of some great companies as Enron and Worldcom and Parmalat showed that observing technical regulations are not adequate in professional responsibilities. Professional accountants besides observing technical regulations should be committed to professional ethics. Enron was an active energy firm that went bankrupt due to fraud, false account, and registration of false claims in financial statements. Worldcom is another company that went bankrupt June 2002 due to accounting impropriety. The managers, in order to avoid fall in stock in 2001 and 2002 made some false accounts and hid the losses. But the financial cost the company, and led to a loss of 180 billion dollars of investors’ funds. Parmalat in Brazil is yet another company that went bankrupt due to financial scandal (Bayat, 2009). Common financial impropriety and result in scandals and ethical issues includes manipulation or forgery documents; registering transactions with spurious documents; registering incomplete or ambiguous offices; false presentation of financial effects of transactions; and non-observation of financial and tax rules; misusing assets; ignoring internal controls and obliging subordinates for false registration of transactions.

Others are collaboration with auditors; lack of financial disclosure scandal; false application of accounting procedures; withholding transaction information or presenting false information to auditor and related organizations; disclosing confidential information of employee to the competitors, not providing adequate reserve to reduce invoice value and non-registered costs; and failure to present or giving false information to capital market to affect stock price.

In the field of auditing, the followings are considered unethical: not observing professional qualification; giving up to abnormal pressures inside or outside organization; participating in activities in contradiction to profession rules; financial dependency or employment on employer or required economic unit; purposeful selection of sample that does not indicate population; purposeful mistake in generalizing discovered mistakes; false conclusion to hide important mistake or distortion; statement of auditor before evidences discovery (before internal control test and content test) and prejudice; non-disclosure of transactions with affiliated people; and non-disclosure of the events between balance sheet date and audit report. The auditor should design some methods to estimate risk to be sure of discovering the false presentation or fraud or mistakes.

**Ethical Guidance in Accounting and Audit**

The professional ethical guidance includes two parts of fundamental rules. Principles define professional responsibility to society, employer and members. Rules show practical use of principles (committee on formulating audit guidance, 1997). The major principles in professional ethics of accounting and auditing are:

1) Considering benefits of beneficiaries: Professional accountants should consider the benefits of all beneficiaries including society, employer, creditor and employees.

2) Responsibility: Deep understanding of professional, ethical and legal responsibilities is a necessity of the work of the profession.

3) Doing work truly: Resorting of professional accountant to general ethical principles.
4) Impartiality in judgment: The professional accountant should have a judgment without prejudice, conflicting interests and contradictions and without undue external influence.

5) Autonomy: The ability of professional accountants to maintain impartiality and independent audits should not have direct benefits or important indirect benefits in the unit.

6) Confidentiality: The information of employer should be confidential. The auditor is not obliged to disclose employer's confidential information without permission; unless required by a court of competent jurisdiction.

7) Observing the type of service: This principle shows that limitations of service are observed and that work is compatible with the professional role.

8) Professional qualification: The professional accountant should have adequate information of techniques in professional work and should have required skills and experiences.

9) Observing the technical regulations: Observing the accepted accounting and auditing standards is obligatory. The professional accountant should consider professional care in the work as observing law, report form, timely report, and accuracy in figures, work appropriate method, quality standards and other accepted standards.

10) Professional behaviour observation: Observing the position of professional accountant is necessary. An accountant should not behave in a way that places a question mark on their creditability (Madad, 2004).

Fundamental Principles of Ethics
The instruction of international federation of accountants regarding ethics for professional accountants presents five (5) fundamental principles:

1) Integrity: A professional accountant should be straightforward and honest in all professional and business relationships.

2) Objectivity: A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

3) 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.

4) 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 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.

5) Professional Behaviour: A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession (Moheb & Moradi, 2012)
On the other hand, the rules that guide professional accountants are divided into three sections. The first section deals with rules executed for professional accountants. These include:

a) Integrity and impartiality: This rule provides that professional accountants must avoid benefits relationships that contradict their professional ethics. They must not be influenced by others, assurance of resorting of co-workers and must avoid receiving gifts that puts that could compromise their judgment.

b) Confidentiality: A professional account should be confidential about employers’ information. They can disclose such information only by agreement of the employer, legal obligation, observance professional principles, keeping professional benefits in legal claims and qualitative investigations by profession formation.

c) Tax services execution: This includes maintaining documents and tax reports, creating awareness of employer of their responsibility, probable problems of tax statement, etc.

The second section deals with rules executed about independent professional accountants. It includes legal and real entities doing professional services, partners and owners of professional institutions and all professional managers and employees working in each part. This section addresses such issues as:

a) Autonomy: It means that interest of the professional accountant has no effect on his work.

b) Professional qualification: An independent professional accountant should avoid accepting professional services without any qualification

c) Observing fee regulations of independent professional accountant: The received fee should be consistent with required skill and knowledge, education level, responsibility and time (technical committee, regulations of accounting and auditing, 1998).

d) Activities inconsistent with accounting job: An independent professional accountant should avoid activities that are inconsistent the profession.

e) Replacing an independent professional accountant: The independent professional accountant should investigate the professional reason for replacement before accepting a new work. The minority owners’ rights should be considered in changing professional accountants and the previous professional accountant rights should be maintained.

f) Advertisement: The presented information should be complete, appropriate and realistic and avoid measurements not consistent with the above principle as creating unrealistic expectations, pretending to have influence on official authorities and institutions, self-praise, unjustified claims and etc. Information is allowable in the following: Changes and appointing (membership in professional associations), books publishing, articles, interview, speech, educational pamphlets, employees’ employment, inserting the name of independent professional accountant in the documents published by employer and etc.

Finally, the third section deals with rules executed about professional accountants being employed. This section looks issues, including observing law and other legal requirements;
observing professional regulations; avoiding presentation of misleading information; avoid being mentioned in false documents; internal resolution of conflicts and differences in opinion; resigning if necessary; supporting professional colleagues; professional qualification and presenting information based on correct regulations and standards.

**Professional Accountants’ Need for Ethics**
The question is raised why ethics is importance in accounting and audit? The following are some of the reasons:

1) Professional accountants are responsible to public benefits and credit of accounting profession and personal benefits should not be better than best public benefits,
2) Accountants on behalf of their employers, are faced with some issues and they have access to confidential information
3) Auditors claim to present independent opinion.
4) Professional accountant considers themselves responsible to their employers. Their mission is solving employer’s problem and creating required value for them. If such value is not created and such problem is not solved, the professional accountant has not done their duty well.
5) Technically, professional accountants should do professional services in accordance to appropriate technical standards. Professional accountants are obliged to do the requirements of employers as consistent with requirements of integrity, impartiality and if professional accountants are formal accountants with autonomy, feature should be consistent (Asif, 2010).

To be familiar with consistency with ethical principles, the professional accountant should follow the technical and professional standards stated from the following references:

1) International Federation of Accountants (IFAC) regarding International Standards of Auditing (ISA);
2) International Accounting Standards Committee(IASC);
3) Professional accounting institutions; and
4) Rules of companies and institutions regulating law and law-making

**SUMMARY AND CONCLUSION**
Ethics is rooted in human nature (wisdom and emotion). Human spirituality is a natural and infinite reality and observing ethics is one of the manifestations of this spirituality and the initial basis of social life. In accounting and auditing, professional ethics is the measurement index of appropriate behaviour and a tool to determine true and wrong relations. Indeed, ethical principles in the profession determine the professional accountant’s responsibility to society, employer and other beneficiaries. The reality now, is that individuals cannot trust others without ethics. Also, individuals cannot maintain a healthy contact with the environment without ethics. In other words, individuals require ethical principles as they engage in small works, participate in simple dialogue or when they consider social life and professional responsibilities. Professional behaviour regulation and ethics in accounting and auditing is an attempt to respond these needs.
All accounting institutions continue high level of studies about ethical principles for volunteers and most of the proposed courses of institutions are associated with ethical principles. Thus, auditors should observe the instruction of ethical principles and maintain their autonomy when advancing their opinions in financial statements. Accounting has important general responsibilities. As professional accounting institutions present adequate researches about ethical principles to professional accountants, auditors are obliged to execute these studies in practice to be sure of responsiveness and trust. Accounting and auditing ethics beside other innovations can reduce ethical offences and scandals. Ethical accounting and auditing at individual level can be inculcated in accounting institutions for accountants working for business.

In order for professional accountants and auditors to keep independent audit job for future of the society, they must eliminate all ethical and value problems by considering social benefits. If they resolve these problems by other methods, they ignored their right to have professional social conditions and do not consider a suitable professional destiny. Expressing the fundamental principles of ethics and professional behaviour in journals and approving regulations are useful measures but without formulating a long-term plan to increase the knowledge of accountants regarding this issue and the development of professional behaviour and ethics cannot be effective. Although educational plans are necessary, they cannot organize the affairs of professional accountants and auditors. To improve ethics and professional behaviour in the country, a deliberate comprehensive attempt should be made by professional accounting communities, professional institutions and professional accountants in the three levels of rules, training and execution.

REFERENCES


