

Ethics in accounting and auditing

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Abstract

Accounting and auditing professions deal with the most critical issues relative to individuals i.e. property. Accountants are as same as physicians in which trust has a major role in their profession. Client's mistrust is destructive to accounting systems and profession. Main matter in the field of accounting is exclusive benefit of CPAs's legal auditing as well as ability to respond which is the requirements of unique advantage. Profession is protected proprietary advantage through its superior characteristics such as independence, integrity and protecting public interest. The relationship between characteristics and professional behavior is main criticisms against profession. Major accounting errors as well as unusual and exceptional errors, causing losses to investors and is outside of moral assumptions. However, the focus of professional behavior and code of conduct in the audit is moral decisions making which should not be considered simple and insignificant. Audit firm should confront with illegal activities considering auditing professional code of conduct. The firm also should abide by its legal obligations to protect the reputation of the recently conducted Research in the accountants and auditors professional code of conduct, concentrated on accretion understanding and acceptance of accepted professional ethics. Unethical behavior Continuation showed that ethical principles are more important than technical rules in professional accounting and auditing. Thus, ethics got more attention and the International Federation of Accountants gives the committee mission to provide the Code of Professional Conduct. Committee developed the first Code of professional conduct of accountants in 1996, to be used as a model of ethical guidelines.

Keywords: Audit the accounting profession, professional behavior, accounting ethics.

Introduction

Ethics is all rules of conduct shared by a particular community, rules that are based on the distinction between good and evil. Morality is all the principles of universal normative dimension (often dogmatic), based on the distinction between good and evil (Wundenburger, 1993, p. XIV). Professional ethics is recognized as a science which deals with the study of professionals in meeting the obligations and rights of their professional activities. Professional ethics is a reflective and critical discipline. It is located at the intersection of moral philosophy with particular ethics of various categories of occupations. The central issue of the introduction of ethics in professions, although there are already laws is because the law usually acts after an infringement has occurred. Ethical standards have since then been developed through government groups, professional organizations, and independent companies.

These various groups have led accountants to follow several codes of ethics to perform their duties in a professional work environment. Accountants must follow the code of ethics set out by the professional body of which they are a member. Creative accounting provides a formidable challenge for the accounting profession. There is a variety of managers' motivation for creative accounting practices. Accountants who accept the ethical challenge of creative accounting must be aware of the abuse in the choice of accounting practices and handling transactions (Accounting Ethics, 2010).

Definition of Ethics

Ethics in original meaning is something that exists naturally in the human body or in other

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words major means by which humans interact with the environment. Typically, the domain of ethics is seen as individual behavior. But when individual behavior spread at public level or social institutions become a kind of collective morality rooted in the culture of the society and get the predominant aspect in which community can be judged.

Eric Kohler's in Dictionary of Accounting has been described Ethics as:

"Spiritual principles and their application to specific behavioral issues, especially the professional code that are written by professional body for members ". (Sedighian and Shourak, 2012).

Professional Ethics

Ethics is the science to explain the correct behavior of body and offers the practical guidance to set out the responsibility boundaries. Many known professions have created voluntary codes of practice that regulate practices in their industrial sector. The main purpose to draw up conducting standards is developing moral responsibilities towards society, environment and others. Ethics can be defined as interpersonal and intra- personal communication behavior model based on individual rights and responsibility in the interest others. In general, the moral responsibility can be defined into following 3 parts:

- A) Individual responsibility towards themselves and others in personal life
- B) Individual responsibility towards themselves and others on career
- C) The organization towards internal and external environment

Codes of conduct in every profession draw its important policy. These policies encompasses main characteristics of the profession, professional relationships between community and members, professional relationships with each other and making relationships with the professional community. These rules are called principles of professional conduct in professional accounting (Beshkooch, Hassanzadeh, and Moradi Pour, 2012).

Since accounting has above feature and requires expertise and has clients who are dependent on the expertise, then can be considered as a profession. Professional accountant is obliged to take care of the clients' interests. Today's modern world of accounting professionals is crucial, because without it the current economic system cannot exist.

In lack of a way to calculate the wealth and goods as well as a way to distribute them, the trade will be stopped. The performance of financial markets is based on trade understanding of values of the assets and financial swaps; only accountants are able to draw this understanding.

Strong relationships, property rights, claim, assessment, deliveries and liabilities, all are intellectual and social implications in which specify who owns what and who owes who and how much. All these concepts are defined and tracked by accountants and office holders.

Since financial activities are essential for the survival of the current world and accounting facilitate these activities, hence accounting as a profession deemed beneficial and essential for his role in tracking the great network and financial relationships in a complex economic world, has become a major service career with the moral command (Duska and Duska, 2003).

Frost assumed that the beliefs and values of each individual arise from a unified conceptual system or in simpler words, a person's moral philosophy. Then he distinguished moral philosophy into two Categories: the idealism and relativism. From relativists' point of view a universal set of rules and moral standards do not exist.

Those with a high degree of relativism are unwilling to accept the rules of collective and believe that conditions, situations and people are involved in recognizing of moral and non- moral being a decision, they also believe there is no guarantee that an ethical behavior in a specified situation be ethical in another. Those with a low degree of relativism are more likely to conduct according to the rules and regulations than those with a high degree of relativism.

Idealism is a moral philosophy in which human welfare is a milestone in decision making. Those with a high degree of idealism believe that we should always act in a way that does not harm others. Those with a lower degree of idealism believe that it is impossible to prevent damage in all circumstances. Therefore good work should be done even though some people are damaged (Forsyth, 1980).

According to research, financial managers with moral ideal point of view, provide more quality information and are less likely to manipulate enterprise earnings value compared with relativistic (Etemadi and Dianti, 2009).

Principles of Professional Conduct

Profession-society interaction that requires providing professional services to the community on one hand and employment for the service provider on the other hand must be subject to precise rules that aware both sides to observe each other's rights.

Dominated system in all professions is combines of inside and outside auditing rules. In a few communities, all regulations are edited inside the community and all of them are not generally imposed from outside. Code recognizes that accounting profession objectives are established to meet the highest standards of professionalism, to achieve the highest levels of performance and meet the public interest. Achieving these goals involves meeting four basic requirements:

A: Credibility. Throughout society there is a need for credibility in information and information systems.

B: Professionalism. There is a need for customers, employers and other stakeholders can be clearly identified those accounting professionals.

C: Service quality. It requires ensuring that all services obtained from the professional accountant are carried to the highest standard of performance.

D: Confidence. Professional accountants' service users must be able to feel confident that there is a framework of professional ethics governing the provision of those services. (The Technical auditing Committee, 2006).

Accounting and Ethics

Accounting is a technique developed to help people track their financial transactions. Its main purpose is providing information about a person or organization by economic affairs and financial reports. The information is used by managers, owners, government, unions, creditors, suppliers, employees, etc. It is notable the range of users of the information has increased as law and the economy becoming more and more complex (Ethics in Accounting, 2001).

Thus, Acceptance of responsibility towards the public is accounting profession distinct prominence. People expectation of the profession is significant and they must confide in the quality of complex services provided by the accounting profession. To maintain public confidence the level of service should deserve the society trust. Hence, the accounting profession service should be at the high-

est possible level and also rules guarantee continuation of these services with proper quality. Hence Ethics in accounting for professional accountants and for people who rely on is important. Accounting profession should draft ethics and codes enforcing its members to have a level of restraint beyond legal requirements and regulations (Beshkooch, Hassanzadeh, and Moradi Pour, 2012).

The need for appreciating professional ethics in accounting

Maintaining public confidence in the accounting profession is possible as long as professional accountants provide their services at a level that worth trust of society. Hence, the accounting profession services should be provide in the highest possible level and by rules that guarantee continuation of these services with good quality However, users of accounting services, especially decision makers who use financial statements, expect information provided by the accountants to be significantly more efficient, reliable, and true, the accountants should not only be qualified and competent professionals, but should also have a high degree of professional integrity and honesty and professional prestige and dignity of their most important assets. Ethics in accounting for professional accountants and accounting services for people who rely on is important (Sedighian and Shourak, 2012).

The importance of ethics in accounting

Independent auditors should work hard. They must have a thorough report in connection with the issues encountered during working for their managers. Things like sluggishness, jury report and secrecy are immoral. The tasks of Auditors are clear and they should do their best. Give Practical ethical mandate to those who deviate and defy the law is eliminated in the revised Code of Conduct (Maurice, 1996). Violations of ethical accounting system not only led to social inaccurate judgment, but also may undermine the value of the work of auditors in the accounts functions. Of course, this is not only caused by disability since accounting principles in audit companies and institutions depend on the importance of ethics in those places and system, hence disagreement increased about how to run the audit.

It means that even though the ethical in auditing include auditors' guidance but there should be also considerable effort to evaluate current aiming

applying nature of accounts, auditing and economic goals and social functions.

Thorne's model of ethical decision making

Thorne (1998) proposes a model that integrates James Rest's Four-Component Model of ethical behavior with the tenets of virtual ethics theory. The basic idea behind Rest's four-component model is that "various (four) inner psychological processes together give rise to outwardly observable behavior." The four processes, briefly, are as follows (Rest, 1986; Rest, Narvaez, Bebeau, & Thoma, 1999, p. 101):

1. Moral sensitivity: interpreting the situation, role taking how various actions would affect the parties concerned, imagining cause-effect chains of events and being aware that there is a moral problem when it exists.

2. Moral judgment: judging which action would be most justifiable in a moral sense.

3. Moral motivation: the degree of commitment to taking the moral course of action, valuing moral values over other values, and taking personal responsibility for moral outcomes.

4. Moral character: persisting in a moral task, having courage, overcoming fatigue and temptation, and implementing subroutines that serve a moral goal.

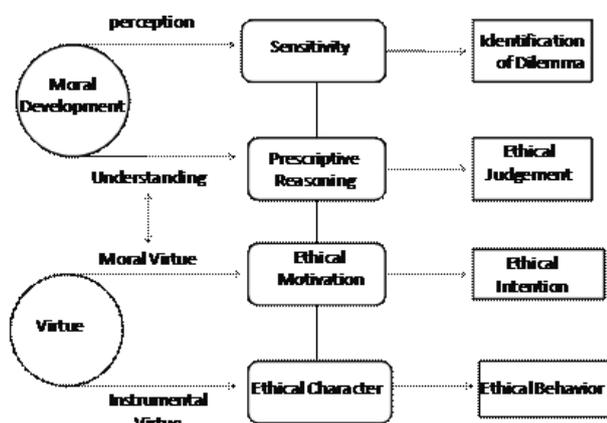


Figure 1. Thorne's integrated model of ethical decision making.

Figure 1 indicates that moral development and virtue are both required for ethical behavior. Figure 1 further suggests that moral development comprises sensitivity to the moral content of a situation or dilemma and prescriptive reasoning, or the ability to understand the issues, think them through, and ar-

rive at an ethical judgment. Similarly, virtue comprises ethical motivation, which describes an individual's willingness to place the interests of others ahead of his or her own, and ethical character (Rest, 1986; Rest *et al.*, 1999).

Dobson and Armstrong (1995, pp. 189–190) advocate the use of virtue ethics theory in accounting ethics education and describe four basic attributes of the theory: Generally accepted virtues, an active community, sound moral judgment, and moral exemplars or role models (Dobson, and Armstrong, 1995).

Mints (1995, p. 260) analyzes the virtues in accounting that he believes are linked to the requirements of professional codes of conduct, namely trustworthiness, benevolence, altruism, honesty, integrity, impartiality, open-mindedness, reliability, dependability, and faithfulness (Mintz, 1995).

Approach to ethics in accounting rules

Accountants and auditors have valid and accepted Code of Ethics to follow accepted standards. Yet all accountants, even those experienced have commitment in colleagues. They also have a commitment to ethical rules and implementation ways of rules and procedures governing the ethical and professional practices. It is not important if some of the ethical rules may be only for a class or a specified list of employees, but rather accepting the moral laws by professional staff is important.

Ethical rules should be drafted exactly and away from any acts of personal opinion or any other deviation like scorn and neglect. It should be also noted that moral rules should not be taken into blind obedience, but should be based on knowledge of this legislation philosophy and supported by reasonable and rational development (McBarnet and Whelan, 1999). Knowing accounting and auditing rules is only possible by acquisition of professional education. Because increase our understanding why systems of accounting and auditing are used and what is the role of these systems and the rules set by them?

Awareness of the rules act will improve the understanding of the laws to be drafted. Some accounting procedures are computational and fully understood; then can be applied in applied concepts with no increase. Normally Laws that are subject to analysis and judgment in auditing are associated with these rules. Hence it can be said that flexible and creative accounting, can fix lack of jobs available.

Ways to Implement Ethical Audit

In cases where the auditors and their actions are considered, ethical choices related to work must have an approach based on moral laws. On the other hand, those who set the rules for the organization, may expect to gain favor at least when the legislation. So, we should consider ways of appreciating moral options and the amount of importance of these items for the Organization when validating an organization. Ethics in social life or in a body notices that individuals and body members have commitments for compliance with the public laws and organization that have not played a part in the formulation of their moral obligation. In fact the moral choices ultimately run by the organization high officials. In addition, an organization like a country has an enduring commitment to respect the laws and regulations of such institution (Campbell, 2005).

Hence, identifying the mankind ethical characteristics -at least according to common Western traditions - that an emphasis on individual autonomy will lead to people opinions change and their concordance and lack of concordance with valid, legal and social measures (Kant, 1953).

Despite the ethical reasons for adherence to laws, there are individual responsibilities in acceptance or rejection of specific outcomes. Trade-off between moral rules and laws that have useful results is unacceptable. So, people decide how their action is consistent with the ethical elements. Annual reporting of financial data is one of these processes. Another issue related to a body member is that they prefer morality and commitment to personal interest. In such circumstances; there is a collective obligation to approve and support profession values.

Sufficient and appropriate Documents procurement, making culture to protect the integrity of auditors and obeying the ways that bring the benefits to the highest standard levels is classified as a special responsibility of auditing firm. Thus, in the lack of proper management and appropriate guidance on the auditor, morally behavior cannot be expected.

The specific role of auditor's social responsibility

Accounting integrated principles have particular usage in situations that require reporting of financial statement by organizations for their external members. The regulations also make clear

auditing by a professional independent auditor to verify above predicted quality information. This type of certification for the shareholders is good both for companies and society. The certificate is provided not only for shareholders who are usually addressed, but also for the community as a public good.

The social role of the audit firm should also be included in the broader corporate governance i.e. the organization and institutional mechanisms which are to guide and control the corporations and their management inter-organization as well as an external organization. This is a complex and multi-layered control and involves internal and independent audit, selection committees' use, irresponsible managers' (external) role, advocacy and involvement of stakeholders (institutional investors) in the company.

Ethical guidelines on accounting and auditing

Adherence to ethical principles of accounting are necessary in achieving the objectives of accounting professions by the professional accountants. Every professional association of accounting set out its own moral principles that have a lot of similarities and supply all the efficiency, reliability, validity and professionalism of Accounting and Audit.

Principles of accounting are more or less a consensus of all the professional associations of accounting and appreciating them makes achieving the career goals. The most important principles of the professional ethics of accounting and auditing are as follows:

a) Respect for stakeholder interests: A professional accountant shall consider the interests of all stakeholders including the community, professional accountant, business owner, and staff .

b) Responsibility: an understanding of professional, ethical and legal responsibilities is a requirement to work in this profession.

c) Integrity: A professional accountant should be straight and honest in all professional and business relationships.

d) Objectivity. A professional accountant should be impartial and must not allow prejudice, confusion, conflicts of interest and unwanted influence to interfere with professional or business judgments.

e) Independence: Professional accountant's ability to maintain the neutrality of the independent auditor shall direct interest or indirect interest in the entity is important.

f) Privacy. A professional accountant should respect the confidentiality of information acquired as a result of professional or business relationship and should not disclose such information to any third party without specific authorization, unless there is a right. Confidential information obtained in a professional or business relationships should not be used for personal advantage of the professional accountant or third parties.

g) Respect for range and types of services: This indicates that the limitation of the scope of services to be met and the work is consistent with the professional role.

h) Professional competence and prudence. A professional accountant has a continuing duty to maintain knowledge and skill level necessary to ensure that a client or employer receives competent professional service based on the latest developments in practical. A professional accountant should act with caution and in accordance with applicable technical and professional standards in providing professional services.

j) Respect for technical and professional standards. Professional accountants should carry out professional duties in accordance with relevant technical and professional. Professional accountants have a duty to perform with skill and care instructions provided to the client or employer that are compatible with the requirements of integrity, objectivity and, if self-employed accountants, with independence. In addition, they must comply with professional and technical standards issued by: IFAC, IASB CECCAR, CAFR and relevant legislation.

k) Professional behavior. A professional accountant should comply with relevant laws and regulations and should avoid any action that can discredit the profession (American Institute of Certified Public Accountants, 1988).

Correlation between these features and the professional conduct was the main feedback over the past 30 years for the profession. In the twentieth century, the job considered dependent on the ethics, but the imprint, legislators and investors doubted this claim (Moheb and Moradi, 2012)

Conclusion

Professional ethics aims to increase credibility of accounting professions that will lead to improvement in the image of professionalism in the long run. In accounting and auditing, professional ethics

are measurement indicators of appropriate behavior and an instrument to determine the true and false relations. In fact, moral principles of the profession, explain professional accountant's responsibility towards the community, clients, and other stakeholders. Indeed, in today's world in the lack of morality no one can be trusted and there are not a good deal with the environment and universe as a whole. In other words, doing minor things, engage in a simple conversation or any other work, need ethical principles. accounting educators should attempt consciously to instill a sense of pride in the accounting profession and a desire to live up to the highest ideals embodied in the notion of professionalism in students. Obviously, by doing this we ensure accounting and auditing profession can play their historical role in the fair development of nations

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