

# A Review of Accounting Ethics

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## Abstract

The aim of this paper is to review the available research studies on the subject of accounting ethics. For this paper, specific search terms were used in the Google Scholar search engine and the results were shortlisted according to the year of publication. Over the past few decades, it has become essential that the accounting profession have a strong focus on ethics, especially in the wake of numerous scams in multinational companies which have caused the reputation of the accounting profession to get tarnished. From the review of the available studies on the subject, it was highlighted that most authors felt that it was essential to pay more emphasis on ethics teaching in accounting curricula across the world. It was felt that accounting curriculum needs to give importance to the study of ethics in order to churn out graduates who practice ethical accounting. Authors have also talked about the Islamic accounting and how it is synonymous for ethical accounting practices.

**Keywords:** Accounting, Ethics, Professional, Standards, Review

## Introduction

Ethics are important in all facets of the society, including governments, businesses and professions. Ethics in accounting is one of the most important, yet most misunderstood, concerns in the world of business today (Onyebuchi, 2011). “Accountants have obligations to shareholders, creditors, employees, suppliers, the government, the accounting profession and the public at large; therefore, they have to remember responsibility in accounting profession” (Mahdavikhou & Khotanlou, 2012). It is important to explore the research on accounting ethics, in order to gauge the requirements of promoting better ethics in the field of accounting. In this paper, we will examine the studies which have been carried out on the subject of accounting ethics.

## Methodology

In this paper, we will review some of the research studies which have been carried out on the subject of accounting ethics. Towards this end, specific search terms were used in Google Scholar search engine, such as “accounting + ethics”, “accounting education + ethics”, and “accounting + ethical education”. The results of these searches were shortlisted as per the year of publication. For the purpose of this study, only studies published after 2010 were used, in order to examine the concept of accounting ethics.

## Results and Discussion

Ethics can be termed as the backbone on accounting. In their study, Su, Kan & Yang (2010) say that many believe that ethics is the foundation of public accounting practice.

## Accounting Ethics

The Concise Oxford Dictionary (1978) defines ethics as “relating to morals and the treating of moral questions” (Mahdavikhou & Khotanlou, 2012). Ethics could also be a philosophical reflection on moral beliefs and practices (Abdul Rahman, 2003 – as cited in Mahdavikhou & Khotanlou, 2012). For any healthy society, ethics are essential. “It is due to its positive

individual, organizational, and social consequences that ethics has always provoked scholars, instructors, and organization managers to try to maintain and improve it” (Samadi & Mahdavikhou, 2009 - as cited in Mahdavikhou & Khotanlou, 2012). In many situations of real life, we face ethical issues. These situations can be examined through several branches and under several ways or grids of analysis, modern or classic (Filipe et al., 2011 - as cited in Mahdavikhou & Khotanlou, 2012). According to Su, Kan & Yang (2010), a profession's code of conduct acts as a basis to examine ethical issues. By fine-tuning the code of professional ethics to the current societal needs, the roles of professional members will be redefined and, as a result, public acceptability will be boosted.

According to Miller & Becker (2011), improving the level of individual accountants' ethics may be the most effective way to improve business ethics. The authors say that the threat of fines, loss of a professional license or imprisonment may be deterring for some people, but these means do not have guaranteed effectiveness. Hence, as per Miller & Becker (2011), it may be through education, rather than government regulation, that ethics in the accounting profession will improve. Accounting education has always been considered technical in nature (Gunz & McCutcheon, 1998 – as cited in Uyar & Güngörmüş, 2013). But acting professionally requires more than technical knowledge.

### **Ethics in Accounting Education**

Ethics in students are an excellent means to measure the future of the behavior of companies and organizations. Dupont and Craig (1996) indicated that ethical views demonstrated by college students shape the basis of future ethical behavior by professionals and managers (- as cited in Su, Kan & Yang, 2010). Ethics education helps students identify the link between ethical decision-making and real-life behavior (Helps, 1994 - as cited in Mahdavikhou & Khotanlou, 2012).

Ethics in accounting education is a very important issue, especially after high profile accounting scandals involving multinational companies such as Enron, Waste Management, Sunbeam and Worldcom (Ahmad, 2016). Accounting fraud, bribery, misconduct and malpractice that occurred (Pricewater Coopers, 2003 – as cited in Muhamad, Salleh, & Abu Kasim, 2018) changed the perception of the society towards the accounting profession (Russel & Smith, 2003 – as cited in Muhamad, Salleh, & Abu Kasim, 2018). The society assumes that this is an immoral action committed by some of the accounting professionals that embarrassed the accounting profession (Haywood et al., 2004 – as cited in Muhamad, Salleh, & Abu Kasim, 2018). According to Salleh & Ahmad (2012), the role of accounting education has risen in importance as a means to inculcate good behaviour among accountants to complement the regulatory measures.

After these scandals, accountants have faced increasing pressure to demonstrate that accounting is a highly credible profession (Low, Davey, & Hooper, 2008 – as cited in Muhamad, Salleh, & Abu Kasim, 2018). Such scandals have a negative impact on the field of accounting, especially as the public perception towards the credibility of the accounting profession as a whole, gets impacted (Early & Kelly, 2004 – as cited in Ahmad, 2016).

Currently, there is growing concern to integrate ethics into the accounting curriculum so that individual aspects such as character, attitude, morality, and as well as the personality of the individuals according to the tenets of religion, culture and civilization, can be covered (Shawyer, 2006 – as cited in Ahmad, 2016). According Haywood et al. (2004), there is need of a curriculum that integrates values and ethics into the curriculum (- as cited in Muhamad, Salleh,

& Abu Kasim, 2018). According to Butroyed & Somekh, (2001), this is also a challenge for the accounting educator as to how to build up accounting students with integrity (-as cited in Ahmad, 2016).

According to Waddock (2005), we need to evaluate the effectiveness and capabilities of the current accounting education system in producing students with intellectual as well as moral qualities (-as cited in Muhamad, Salleh, & Abu Kasim, 2018). Studies till now have shown that the current accounting education is not producing a balanced curriculum. Previous studies have established that accounting education has failed to generate well balanced accounting students in the aspects of intellects, skill and moral to make the best decisions in the interest of the society and its environment (Inlay, 2003; McPhail, 2001 – as cited in Muhamad, Salleh, & Abu Kasim, 2018). According to Ahmad (2007), accounting educators are still seen to be focusing on the teaching and learning activities, geared towards the end point of examination needs (- as cited in Muhamad, Salleh, & Abu Kasem, 2018). In his study, Ahmad (2007) says that at the university level, some accounting educators are not able to integrate ethics in their teachings, while others even refuse to fulfill this need (- as cited in Muhamad, Salleh, & Abu Kasim, 2018). accounting education curriculum at the university shows that the course such as values and ethics as the components that are not important to generate successful students (Armstrong et al., 2003). Waddock (2005), and Russel and Smith (2003) found that the courses such as ethics, values, corporate culture and public policy are considered as a side subjects which only exist for the sake of increasing the students' knowledge, therefore, the subject are only explained briefly in class and takes a very short period of time to finish. According to the study by Mahdavikhou & Khotanlou (2012), one of the central weaknesses of the current curriculum is the inappropriate time allocation for the teaching of ethical thinking, alongside the teaching of accounting subjects. The authors believe that identifying and planning ethical behavior has been forgotten. As per Wijewardena & Roudaki, 1997), the existing curriculum does not allow universities to introduce such flexibility into their accounting programs (- as cited in Mahdavikhou & Khotanlou, 2012). According to the study by Miller & Becker (2011), ethics integration efforts on a per-course basis across the US are modest, and may be inadequate. This study suggests that the accounting programs which integrate ethics in the curriculum, actually develop a formal ethics integration plan to guarantee that essential topics are covered and to maximize the effect on students' ethics. According to the study by Miller, Becker & Pernsteiner (2014), "ethical intent develops as a result of students gaining an increasingly sophisticated understanding of ethics as they are exposed to deeper and deeper challenges". Many prior studies on the impact of ethics training provided very little iterative practice and limited training periods.

Alexander (2002), and Russel and Smith (2003) suggest that today, accounting education requires changes because currently, accounting students encounter serious downfall in the aspects of character, moral and ethics (- as cited in Muhamad, Salleh, & Abu Kasim, 2018). Loeb (2003) agrees with this opinion and says that the need to integrate values and ethics in the accounting education is caused by a number of issues which arise due to ethical and moral problems such as misuse of money, power and current role responsibilities in the accounting profession which will indirectly have an impact on the behavioral and decision making process to the accounting practitioners (- as cited in Muhamad, Salleh, & Abu Kasim, 2018). According to Mc Phail (2001), this shows the failure of accounting educators in bringing forth truthful, excellent and integrated individuals through accounting curriculum (- as cited in Muhamad, Salleh, & Abu Kasim, 2018). In their study, Muhamad, Salleh, & Abu Kasim (2018) say that in order to prevent the reoccurrence of unethical behaviour in the accounting profession in the

future, it is critical for the education institution to implement a system that emphasizes on the integration of values and ethics in the curriculum. Hence, ethics need to be incorporated into accounting education by the educator in order to bring forth ethical generations with good quality and high integrity (Gaa & Thome, 2004 - as cited in Muhamad, Salleh, & Abu Kasim, 2018).

“An effective accounting education, integrated in the aspects of intellects, ethics, moral and fills the need of the society becomes the main factors that contributes to the teaching and learning performance as well as the personal developments of the students” (Waddock, 2005 – as cited in Muhamed, Salleh, & Abu Kasim, 2018). Haywood et al. (2004) assert that educational institutions need to play a significant role in making relevant changes according to the current needs in the accounting profession (- as cited in Ahmad, 2016). Opportunities should be given to both the educators and students to gain information to understand the values and ethical dilemmas, and their impact on the accounting profession (Fulmer & Cargile, 2001 – as cited in Ahmad, 2016).

### **International Accounting Standards**

All across the world, accountants have always used normative terms to describe the essential features of accounting practice. Several western countries use the term “truth” in their auditors’ reports. The United Kingdom accounting profession has used the term “true and fair view” since the issuance of the UK Companies Act in 1947; before that it used the term “true and correct” as per the UK Companies Act of 1879 (Myddelton, 1995 – as cited in Bayou, Reinstein, & Williams, 2011). Since 1998, under the auspices of the International Accounting Standards Committee (IASC), the European Union (EU) requires “fair presentation and disclosure of compliance with International Accounting Standards and a limited —true and fair view override if compliance is misleading” (Official Journal of the EU, 1978; 1998 - as cited in Bayou, Reinstein, & Williams, 2011). However, after a detailed comparison of accounting practice in Spain, Sweden and Australia, Blake et al. (1998) report many problems in implementing this term, and ascertaining whether countries should use the term “fairly present” (the U.S. standard) or “true and correct” (- as cited in Bayou, Reinstein, & Williams, 2011). Feige (1997) reached a similar conclusion in studying the German accounting practice (- as cited in Bayou, Reinstein, & Williams, 2011). In Australia, the auditing profession has used the term “true and fair” since the Financial Corporation Act of 1974 (Chastney, 1975 – as cited in Bayou, Reinstein, & Williams, 2011).

According to Bayou, Reinstein, & Williams (2011), in the US, the accounting profession uses several mechanisms to promote “truthfulness”, such as harsh penalties for violating the AICPA (American Institute of Certified Public Accountants) code of ethics, certification, a conservative culture of professionalism, professional skepticism, Securities and Exchange Commission’s (SEC) rules, and such laws and regulations as Sarbanes-Oxley (SOX). In 2002, the Sarbanes-Oxley Act and Statement of Auditing Standard 99 (SAS 99) were enacted to clarify issues related to ethics and fraudulent financial reporting and to help restore investor confidence in financial statements (Shawver, 2006 – as cited in Klimek & Wenell, 2011). The Sarbanes-Oxley Act formed new standards for corporate accountability; it also made penalties for noncompliance stricter including imprisonment for up to twenty years (Klutz, 2006 - as cited in Klimek & Wenell, 2011). SAS 99 aimed to further integrate the auditor’s consideration of fraud into the audit processes developed for a publicly traded company. In response to the Sarbanes-Oxley Act and SAS 99, accounting profession regulators began to look at enhancing ethics training for current and future accounting professionals (Ramos, 2003 - as cited in Klimek & Wenell, 2011).

But just the existence of accounting standards and rules does not guarantee appropriate financial reports. In fact, a lack of professional ethics can give an extremely unrealistic picture of financial reports for any organization. Hence, as per Mahdavikhou & Khotanlou (2012), “despite accounting standards and rules, without values and responsibilities, accountants can provide manipulated financial reports”.

### **Cross-Cultural Accounting**

According to Su, Kan & Yang (2010), the accounting profession in different countries may have different attitudes about the goals and values due to the differences in cultural and legal environments, which further reflect different levels of professional commitment or standards regarding ethical behavior. Cohen, Pant and Sharp (1992) stated that the effectiveness of an international code of ethics might be restricted by cultural differences even a relatively homogeneous profession such as accounting cannot be excepted from the rule (- as cited in Su, Kan & Yang 2010). Basic similarities are found in ethical standards. This implies that certain ethical standards are indeed universal, and the differences in the codes related to ethical rules can be due to cultural, economic and legal differences between countries (Jakubowski et al., 2002 – as cited in Su, Kan & Yang, 2010). In their study, Su, Kan & Yang (2010) cite an example comparing the Taiwanese code of accounting ethics to the American one. They say that as per the Taiwanese code, charging a fee lower than the rate set by the Accounting Association is strictly prohibited. This is because intra-professional competition in a collectivist society might be considered unethical. In comparison, American businesses thrive on competition as the American society is individualist. In addition, looking for partners who are not members of the Accounting Institute is prohibited in the Taiwanese code while the U.S. code allows non-CPAs to have ownership in accounting firms. According to Su, Kan & Yang (2010), these differences in the code are “somewhat consistent” with the implication of the cultural dimension “Individualism/collectivism.” The study by Su, Kan & Yang (2010) confirms the implication that students from a more collectivist-oriented society would be more inclined to cover for their superior/colleague’s questionable activities than those from an individualistic-oriented society.

### **Islamic Ethics and Islamic Accounting**

According to Mahdavikhou & Khotanlou (2012), “the branch of accounting which sets its goals and performs all of its activities to achieve those goals ethically and objectively within the limits and boundary of Islamic Shari’ah is called Islamic Accounting”. Therefore, the accounting system which identifies, measures, records and analyzes the financial aspects of an entity on the basis of Islamic Shari’ah is termed as Islamic Accounting (Ather & Ullah, 2009 – as cited in Mahdavikhou & Khotanlou, 2012). The accounting process which provides appropriate information (not necessarily limited to financial data) to stakeholders of an entity will enable them to ensure that the entity is continuously operating within the bounds of the Islamic Shari’ah and delivering on its socioeconomic objectives to evaluate their own accountabilities to Allah (Hameed, 2000 – as cited in Mahdavikhou & Khotanlou, 2012). According to Mahdavikhou & Khotanlou (2012), as Islam has its own solid rules which prescribe how a business should be run, the development of Islamic accounting theory and practice has to pursue these rules if they are to be of any relevance to sincere Muslim users.

In Islam, accounting system should function not only as a service activity providing financial information to the users and to the public at large. Accountants should discharge their accountability by providing information to enable society to follow God’s commandments

(Abdul Rahman, 2003 – as cited in Mahdavikhou & Khotanlou, 2012). According to Haniffa & Hudaib, (2010), the new geo-economics of the Islamic world has shifted from Saudi Arabia, Egypt and Pakistan to new territories; also, the governments of Malaysia and Bahrain are actively modernizing the Islamic financial institutions through setting of accounting, auditing and corporate governance standards and promoting innovation of products in order to compete in the global market (- as cited in Mahdavikhou & Khotanlou, 2012).

In Islam, ethics govern all facets of life. In fact, Islam has its own concept of ethics that are derived from the Holy Qur'an and Sunnah. Under Sharia-led financial systems, distributive justice is the most important; hence, greater disclosure, greater transparency and openness is required. This has led to the establishment of Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI); it is the AAOIFI's task to issue standards and guidelines according to Sharia principles for operations and financial reporting of Islamic Financial Institutions (Hanif and Muhammad Iqbal, 2010 - (- as cited in Mahdavikhou & Khotanlou, 2012).

## Conclusion

In this paper, we have reviewed papers which have explored accounting ethics. Over the past few decades, it has become imperative that ethics be followed in the accounting profession, especially in the wake of numerous scams in multinational companies which have caused the reputation of the accounting profession to get tarnished. From the review of the available studies on the subject, it was highlighted that most authors felt that it was essential to pay more emphasis on ethics teaching in accounting curricula across the world. It was felt that accounting curriculum needs to give importance to the study of ethics in order to churn out graduates who practice ethical accounting. Authors have also talked about the Islamic accounting and how it is synonymous for ethical accounting practices.

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