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ACCOUNTANCY PROFESSIONAL ETHICS AND ASSESSMENT OF COMPLIANCE LEVEL BY THE NIGERIAN AUDITORS

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Abstract

The primary objective of auditing is to enable the auditor to express his professional and independent opinion on the true and fair view of financial statements of an enterprise. Auditing is governed by accountancy professional ethics which the Nigerian auditors are expected to comply with before expression of their opinions. The two major professional accountancy bodies in Nigeria, Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) continuously clamouring for the relevance and compliance with the ethics, yet, it appears as if this effort has not been translated into action by some auditors either because of the level of their competence or otherwise. The objective of this study is to find out whether the Nigerian auditors, irrespective of their qualifications and competence status, comply with this professional ethics. This assertion

becomes necessary as it is in practice any audit team member is an auditor therefore becomes a determinant of the true and fair view expression (as the product of compliance with the professional ethics). Primary data in the form of questionnaire was used for the study. Analysis of variance (ANOVA) technique was used in analyzing the data. The study finds out that there are no statistically significant differences among the three categories of auditors selected in the area of compliance with the ethics of the profession. The study recommends that there should be a method of measuring the level of compliance with the professional ethics by ICAN and ANAN taking into cognizance their qualifications and competence level to ensure healthier auditor's judgment. Any default should adequately be punished.

Keywords: Auditing, auditor, compliance, professional ethic

1.1 Introduction

Auditing is not a new term in business or non-business environment. In any formal organization, auditing is fundamental as long as all the owners or major stakeholders will not act in the capacity of directors or managers in-charge of that organizations. Generally, the management of a company is entrusted to a board of directors or management who renders to the owners financial report, at least once in a year. The separation of the owners and other major stakeholders from participation in managing the affairs of the company and also the need to safeguard the owners' interest will, by implication, require the service of an independent person. This person with the required competence is referred to as auditor.

The primary objective of auditing is to enable the auditor to express his professional and independent opinion on the truth and fairness of the financial statements of the company for a particular period or year. Any auditing that falls out of this objective will impair the integrity and credibility of both the auditor and the financial statements being reported upon. For the auditor to achieve this objective, he should be seen to be able to display professional sense of independence, objectivity and integrity even because of the expected great dependency on the financial report by the diverse users. For these noble traits, he should have no interest in the financial information; his only interest is to ensure that his report reflects true and fair view which is the function of complying with the relevant standards, laws and implementation of the accountancy professional ethics. For this study, accountancy professional ethics will be restricted to independence, objectivity and integrity. In carrying out any professional

assignment, an auditor is expected to have adequate and sufficient integrity, seen to be one and must be independent and objective if his report is to be adopted for decision making process by intended users.

The term, independence in relation to the professional auditor implies that he should strive to be self-directed and objective, free of interference by the entire client's staff up to the submission of his report and he is not to allow his work to be impaired by personal interests and or pressure. However, the independence in this context is more of attitude of the mind than a set of code of conduct. Objectivity as professional ethics, requires an auditor to approach his work with integrity and impartiality and the approach must be with a spirit of independence of mind (Millichamp, 2000). An auditor must not be partial or allow his personal views to intervene in collecting all necessary audit evidences on which his opinion will be based.

The third proxy of the professional ethics in this study is integrity which cannot clearly be separated from both objectivity and independence. Integrity is the vital and core value in the professional ethic. The auditor is a professional accountant and he must not only be a person of high integrity and independence but he must be seen to be an honest, candid, upright, decent and righteous person in carrying out any professional work. According to the International Organization of Supreme Audit Institutions (INTOSAI), integrity requires an auditor to observe the principles of independence and objectivity, maintain irreproachable standards of professional conduct, make decision with the public interest in mind and apply absolute honesty in carrying out his work. A violation may have a negative impact on his professional assignment.

The sole aim of compliance and maintenance of this professional ethic is to provide for both the internal and external users, a reasonable and acceptable assurance that information contents of the report/financial statements are reliable, objective, consistent and complete in all respects and comparable across the period covered by the report for their decision making. Another purpose is to abstain from professional misconduct and any act which may likely bring discredit to the auditor and the accounting profession. Auditors and accountants, as professionals, need to adhere to the codes of their professional ethics in order to produce reliable, relevant, accurate and comprehensive financial reports (Ogbonna, 2010).

The two major professional accountancy bodies in Nigeria (Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of

Nigeria (ANAN)), International Federation of Accountants (IFAC), other professional bodies and other relevant standards/committees have continuously clamoured for the relevance and need for compliance with the ethics in any professional assignment. It appears still that these have not been translated into action to the level of its awareness. Evidence can be from the various forms of business failure which are attributed mainly to the accountants in practice or the auditors' failure to comply with the professional ethics and which by implication featuring ethical dilemmas (Erliden, Hermansson & Skirhammar as cited by Larsson & Wennerholm, 2006).

The most common and observed unethical conduct that may intend to impair the audit trait in practice these day is that any audit team member in a client company answers the word auditor irrespective of his level of audit qualification (academic and professional) and competence. That is, not complying with the minimum standards required by the profession. In some cases, some auditors' reports and opinions will have to be ready before the auditing itself since almost all the contents of auditor' report are constant and same. However, the ticking exercise must always appear on the financial records to justify the audit work. Less or no consideration will be given to auditing procedures and its utmost respect. It will be obvious that some of these groups of auditors will not understand and be able to comply with the ethics of the profession even though that their inputs always count in the expression of opinion.

From the issues highlighted in the preceding two paragraphs, the study will propose that i) auditors with BSc/HND in the field with practicing certificates are likely to appreciate and ensure full compliance with the ethic of the profession
ii) Those with BSc/HND in the field with experience will ordinarily comply with the ethic and
iii) Those with other qualifications and experience will equally be less concerned with the issue of ethic even though their contribution takes integral part in the true and fair view judgment.

For the purpose of addressing this proposition, the following research question becomes necessary. Will it be feasible for the Nigerian auditors irrespective of their competence status to comply with the accountancy professional ethnic?

The objective of this study is to find out whether there are differences among the three categories of auditors in the proposal above in compliance level with the ethics (independence, objective and integrity) of accountancy profession. This assertion becomes necessary as any audit team member in practice is an auditor, therefore a determinant of the true and fair view expression. The true and fair

view can represent a major product or component of compliance with the ethic of accountancy profession. The outcome of this research work will be significant mainly to the accountants in practice or Nigerian auditors and the two professional accountancy bodies in Nigeria by reminding them the importance and need to embrace and reemphasis on the ethic of the profession.

2.1 Literature Review

As cited by Adeniji (2012) and Nwankwo (2006), “auditing is an independent examination of, and expression of opinion on, financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation”. Put in another direction, but in a more explanatory manner, auditing is an investigation or a search for evidence to enable an opinion to be formed on the truth and fairness of financial and other information by a person or persons independent of the preparer and persons likely to gain directly from the use of the information, and the issue of a report on that information with the intention of increasing its credibility and therefore its usefulness (Gray & Manson, 2007).

There are many more definitions of the term auditing yet the basic objective is the same, which is to enable the auditor to express his professional and independent opinion on the true and fair view of financial statements of an enterprise at a particular date. Auditing should be seen as an independent, objective and honest examination of all financial and related records of an organization. This includes obtaining information, verbally or documented as will assist the auditor in arriving at satisfactory evidence and conclusion on the financial information for the shareholders and other stakeholders to take decision as necessary.

Auditing is governed by the provisions of laws, standards and fundamentally the professional brainpower of the auditor that carries out the assignment. However, the determinant of auditor’s mentality or attitude to auditing can only be approximated by the accountancy professional guidelines. These guidelines are primarily referred to as professional ethics in accountancy. The International Federation of Accountants (IFAC) as emphasized by the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) provide that members in practice shall constantly maintain transparent independence, objectivity and high integrity in carrying out the auditing assignment. This is in accordance with the public interest and the uniqueness of the profession.

The American Institute of Certified Accountants (AICPA) in its contribution maintains that: “In the performance of any professional service, a member shall maintain integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others. Members should accept the obligation to act in a way that will serve the public interest, honour the public trust, and demonstrate commitment to professionalism”.

Henderson (1982) states that, the purpose of ethics or a code of ethics is to enable individuals and members in a profession to make choices among alternative behaviours. John (2009) is of the same view and state that anyone who belongs to an association has a moral responsibility to behave and observe the rules of the association. This is because the accountancy profession is both cynical and responsive to the public and other users of financial statements. This feature, by implication, requires that the accountant in practice should be extra careful, attentive, methodical, loyal and observant in carrying out any professional assignment.

Campbel (2006) states that, ethics, that is truthfulness, honesty, care, loyalty, integrity: we know what they require, but we do not know if and how these requirements can be met. The key word is ‘honesty’ which always goes with integrity in audit practice. According to Grover (2005), honesty is seen to be a tendency not to tell lies, cheat or steal. In the same vein Smith (2003) sees honesty as a refusal to fake authenticity or to believe that particular facts are other than they are, whether to himself or any person. Again, Sims (2000) states that lying is a statement that one knows to be bogus or believes to mislead with the intention to deceive others. If this indeed is the case, and we want to promote ethical auditing, then we need to attract decent people into the profession, train them well, and not subject them to more temptation than they can cope with. Maurice (1996) and Albrecht (1992) believe that once there is competence and expertise, moral sensibility, together with good example of senior colleagues that can take care of the ethical side of the profession, ethical will at least be promoted.

According to Campbel (2006), research into the ethics of accountants and auditors is a focus on discovering how to maximize compliance with generally accepted principles of professional conduct. According to Collste (1996), ethics deal with issues such as what individuals are confronted with in their decision-making. On the other hand, Crane and Matten (2004) see ethics as the study of morality in order to explain specific rules and principles that determine right and wrong for any given situation. According to the study, morality is more of norms, values and beliefs that are part of a social process, which defines right and wrong.

Akadakpo and Izedonmi (2013) emphasize that accountants in practice are required to comply with local laws and should adhere to the ethical guidance. Nwanyanwu (2010) believes that ethical standards if strictly adhered to, become internalized and then will reflect extensively in professional assignments. Accounting is a profession that rests heavily on the need to exhibit a high sense of accountability and stewardship, hence the emphasis that all members be guided by professional code of conduct (Nwagboso, 2008).

2.2 Professional Ethics and Compliance by Auditors

Of recent, attention has been on the increase on the recognition and adoption of professional ethics mainly by the professionals whose services are required by the public; it becomes popular because of the recent corporate scandals. From the previous studies conducted on whether experience, knowledge, firm's size, and different kinds of pressures have any effect on auditors' ethical behaviours when confronted with the challenges of ethical dilemma (Lord & DeZoort, 2001 and Sweeney & Roberts, 1997), it is found that the independence of auditors is affected by the level of ethical reasoning of the individuals. It was also found that the audit profession is sometimes questionable, too subjective and that it must transform in order to maintain the public interest on the auditors' opinion.

The study of Lord and DeZoort (2001) also indicates that various factors are responsible for the auditors' judgment in expression of opinion. These factors include pressures from the environment, peer pressure and other social pressures. As cited, Larsson & Wennerholm (2006) is of the view that it is the increasing financial benefits and the threat of losing a client that could cause unethical practice. The author is of the opinion that it is imperative for an auditor to have individual responsibility and to act according to his own values when making a decision, rather by affecting the group pressure in their decision-making. In a similar study by Simnett (1996) who discusses whether experience and task complication affect an auditor in taking decision, it was concluded that experience does not essentially have any significance in decision making process.

Larsson and Wennerholm (2006) are of the opinion that some business failures are due to unethical behaviour by auditors hence they have been faced by an increasing criticism during the last few years. In the same study, it is argued that the auditing profession is equally facing crisis of confidence and trust due to non maintenance of public trust. This is because of some remarks that auditors have to engage in unethical act for financial benefits such as fraud, social crime, even white-collar crimes, to occur. In line with this ugly observation, Abdolmohammadi and Scarbrough (2003) posit that the auditing profession is forced to reform with a view to improving the ethical reasoning of auditors for the public interest and confidence.

Mitchell, Sikka and Willmott (1998) state that, to restore the glory and goodwill in the auditing profession and also to prevent future financial scandals, the demands on the profession to adopt professional ethic have to be increased. A

code of ethics should be seen as a requirement by the profession (Boatright, 1999). It is an important component in forming a profession and really ethics that professionals will have to act in a manner that will be well above the minimum requirements (Smith, Smith & Mulig, 2005).

3.1 Methodology

The objective of this study has led to the use of primary data in the form of questionnaire. The primary data was collected through distribution of enclosed questionnaire to auditors / accountants in practice within Kaduna, Kano and Zaria metropolis that were selected at random. In addition, secondary data were collected from relevant journals and text books in order to supplement the primary data and also to provide an insight to the study. Three hundred and fifty (350) questionnaires were distributed as population of the study cannot easily be established and relied upon because of the nature of their field work. The questions were formulated based on the 6-point Likert type response scale; 6 strongly agree, 5 agree, 4 fairly agree 3 fairly disagree, 2 disagree and 1 strongly disagree. 12 items were covered in the questionnaire. The questionnaires were specifically distributed to staff (all audit staff in the capacity of auditor including partners) of practising firms. The questionnaire was designed in order to give the respondents the chance to rate their perceived compliance with ethics of the profession and indicating his/her category. The three categories are A: those with BSc/HND in the field with practising certificates, B: those with BSc/HND in the field with experience and C: those with other qualifications and experience. Three hundred and twenty three (323) numbers of the completed questionnaire were retrieved from the respondents. The 323 retrieved questionnaires were analysed using analysis of variance (ANOVA) model to test the views of the respondents. The ANOVA model was chosen because the objective of the study is to compare the means scores of the three types of respondents in compliance with ethic of the profession. The objective is to find out whether there are significant differences in the mean scores of respondents in the categories. An overall mean score was obtained for the scale by summing the answers given to the 12 items.

4.1 Results and Discussion

Cronbach's Alpha coefficient test was conducted using SPSS 18 to check the internal consistency (reliability) for the scale in the respondents to the questionnaires. The result was 0.73, it is satisfactory as it was a little above the benchmark of 0.70 (Pallant, 2007).

Table 1: Descriptive Statistics

	N	Mean	Std. Deviation
Category A	101	3.4831	.46190
Category B	104	3.4167	.41610
Category C	118	3.3963	.34447
Total	323	3.4337	.40773

Source: Authors' computations

From table 1 above, the mean scores and standard deviations obtained based on the total scores of compliance with ethics of the profession scale was presented. From the table, auditors reported an overall (total) moderate compliance with the ethic of accountancy profession with mean scores around the intermediate 3.4 in the six-point scale.

Table 2: Test of Homogeneity of Variances
TAC4

Levene Statistic	df1	df2	Sig.
6.772	2	320	.001

This test of homogeneity of variance in table 2 above appears to have violated the assumption of ANOVA because the Levene's test revealed a significant value. This test shows whether the variance in scores is the same for each of the three groups. For the significant result recorded, Robust Tests of Equality of means becomes necessary to be conducted.

Table 3: Robust Tests of Equality of Means
TAC4

	Statistic ^a	df1	df2	Sig.
Welch	1.579	2	202.945	.209
Brown-Forsythe	1.415	2	289.837	.245

a. Asymptotically F distributed.

From table 3 above, the Robust Tests of Equality of Means show that both the Welch and Brown-Forsythe tests reveal insignificant values. Based on this result, we proceeded with the ANOVA test of significance.

Table 4: Results from ANOVA
Total Auditors' Compliance

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.480	2	.240	1.448	.236
Within Groups	53.051	320	.166		
Total	53.531	322			

Source: Authors' computation

From table 4 above, estimate of the variability for the mean square given by the model is .240 for between groups and the mean of .166 for within groups. The ratio of this mean square is 1.448 and appears too insignificant to reject any null hypothesis.

In order to find out whether statistically significant differences exist in the mean scores on the dependent variable (compliance with ethics of the profession) amongst the three categories of practising auditors, One-way Analysis of Variance (ANOVA) was conducted. The result displayed in table 4 above shows that there is no statistically significant difference ($p > 0.5$) in the compliance level with the ethics of accountancy profession scores for the three categories of practising auditors: $F(2, 320) = 1.448, p = 0.236$. In addition, the effect size calculated using eta squared was .008. Thus, besides not reaching statistical significance, the actual difference in mean scores between the three categories of practising auditors (considering the value of the effect size) is very small (Cohen, 1988). Based on this result, there is no need to conduct post-hoc analysis in order to show where differences exist among the three categories.

The result of this study is not in agreement with the study of Maurice (1996) and Albrecht (1992) who believe that competence and expertise can lead to compliance with the ethic of accounting profession. However, the result of this work is in concordance with the view of Simnett (1996) who discusses whether experience in auditing practice can affect compliance and in taking decision; it was concluded that experience does not essentially have any significance in decision making process.

5.1 Conclusions

The objective of the study is to find out whether Nigerian auditors, irrespective of their competence level can appreciate and ensure reasonable compliance with the ethics (independence, objective and integrity) of accountancy profession. For this purpose, the respondent auditors were classified into three categories A, B and C. A represents those with BSc/HND in the field with practising certificate; category B represents those with BSc/HND in the field with experience and the third group C are those with other qualifications but with experience. From the data analysis and findings, the study concludes that there are no statistically significant differences among the three categories of auditors in compliance with ethics of the profession. The statistical result also concludes that the effect size calculated using eta squared was .008. That is, the actual difference in the mean scores between the three categories of practising auditors is very small.

The study recommends that there should be a method of measuring level of compliance with the professional ethics by ICAN and ANAN and which must take into cognizance, qualification and competence to ensure healthier auditors' true and fair judgment. Any default should adequately be penalized. Qualification and experience of whoever should act in the capacity of auditor should also be clearly redefined by the two professional accountancy bodies in Nigeria.

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