Impact of Audit Practice on Professional Ethics of Listed Firms in Nigeria

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Abstract

This study assesses the impact of audit practice on professional ethics. Audit practice in Nigeria, as in many other countries, is guided by professional ethical codes of conduct, in addition to statute. The Institute of Chartered Accountants of Nigeria regulates the professional conduct of its members in the performance of their auditing functions with a view to ensuring the highest possible professional practice comparable and acceptable internationally. The institute issues code of professional conduct for its members which outline the propriety of conducts in matters of professional practice. Such codes of conduct relate to the requirements on the part of members in matters of: independence; integrity; honesty; technical competence; compliance to technical standards; confidentiality and accountability. In the light of this, this study was undertaken with the main objective of examining the impact of audit practice on professional ethics in some listed firms in Nigeria. The study adopted exploratory assessment methods by reviewing research work done by other writers and authorities in related fields. To achieve these, a large volume of library and internet materials were deployed and subjected to a critical review. Based on the review, it was discovered that lack of professional ethics contributes to the ineffectiveness of quality duty disbursement as it relates to some listed firms in Nigeria which would have encouraged keeping of accurate records of accounts to aid a discouraged corrupt practice among staff. The study also revealed that "The Nigerian Companies and Allied Matters Act, 1990" (as amended) particularly Sections 358- 363 also made provisions that could enable an auditor to avoid relationships that result in undue pressure and conflict of interest so that his report can be taken as being of high quality thus an important factor contributing to the success of the audit, is the ability to be independent, to act as a watchdog' and to conduct audits timorously. In view of these findings, the study recommends the adherence to the existing ethical code of conduct is considered an essential guide for every professional accountant and auditor in practice and also that there must be a total commitment to the rules of ethics and professional conduct by the auditors in order to positively impact on audit quality practice.

Keywords: Audit Practice, Professional Ethics, Audit

INTRODUCTION

Professional ethics is essential in Audit practice as it enhance independence of auditors and also a major tool for a justified and well consented audit report. The nature of the work carried out by auditors requires a high level of ethics as shareholders; potential shareholders and other users of the financial statement rely heavily on the audit report on financial statements of listed companies and firms to make an informed decision about investment. Auditors have obligations to shareholders, creditors, employees, suppliers, the government, the accounting profession and public at large to maintain the highest standards of ethical behavior. Ethics is fundamentally about what is good and right for human beings. As such, it demands a consideration of what factors will encourage the flourishing of society and what factors inhibit society's development and well-being. Reminding accountants and auditors that ethics is a community enterprise, not a matter of individual opinion, highlights the service role of these professionals in the efficient and effective operation of our market-based system.

Accountants and auditors operate in teams. Of necessity, ethics cannot be treated as a matter only for the individual – as the Abilene Paradox demonstrated, a failure to take the 'right' action/decision is often a collective responsibility. Adopting an approach that emphasizes the communal context of ethics (whether that be work teams, departments, accounting firms or business corporations) means that accountants and auditors must take responsibility for building a culture within that community that fosters and develops personal and community integrity, competence and excellence. Aristotle saw ethics as a question related to how power was shared among the members of society and how power was employed to benefit or harm society's well-being. The notion of how power is exercised dovetails very well with the everyday activities and responsibilities of accountants and auditors, who are frequently in positions of power relative to clients, investors and others because of their technical expertise, legal duties and access to privileged information. Without the ability to consciously reflect on how their actions or inactions might harm others, accountants and auditors can (and have) misused their power to harm investors and other parties. The Financial Reporting Council believes that users of financial reports must be able to rely on an audit report giving a robust and objective opinion that the financial statements concerned show: a true and fair view; have been properly prepared in accordance with the applicable accounting framework; and have been prepared in accordance with the relevant legal requirements.

LITERATURE REVIEW

Conceptual Clarifications

The topic of ethics is at the very core of all clubs. Every company, such as a nation and sub-societies such as a family, a social group and a business organization must work according to some ethical guidelines. Without such guidelines, the society would sink into anarchy and eventual crash. The term "ethics" is delineated as the study of moral precepts and values that govern the actions and decision of an individual or group. Where such decisions are not morally acceptable it is stated to be "unethical" to the larger company. Ethics involves learning what is right and wrong, and then doing the right thing. Moral philosophy is also identified as the process by which individuals, social groups and societies evaluate their activities from the view of moral precepts and values (Blackburn, Klayman and Malin, 1985).

Ethics is a term subject to numerous, sometimes conflicting, intergradations (Luoma, 1989). Ethical problems are a very relevant issue present in many aspects of real life. These situations can be examined through several branches and under several grids of analysis, modern or classic (Filipe et al 2011). A squishing mark of the accounting profession is its acceptance of the responsibility to act in the public interest (IFAC, 2005). Key qualities which appear in the codes of ethics of professional bodies include independence, integrity, objectivity, competence and judgment for example, the ICAEW"s introduction to its Guide to professional ethics (ICAEW, 1997) include a list of five fundamental principles which either expressly mentions or clearly implies all of these qualities,

The first is Integrity and this is the quality being honest and having strong moral principles. It implies not merely honest but fair dealing and truthfulness. This principle of integrity imposes an obligation on all accountants to be straight forward and honest in professional and business relationships. Secondly is objectivity. The Principle of objectivity imposes the obligation on all professional accountants to be fair intellectually honest and free from conflicts. This principle requires four basic needs of credibility, professionalism, quality of service and confidence. Professional competence: A professional accountant, in agreeing to provide professional services implies that he is competent to perform the service. Accountant should refrain from agreeing to perform professional services which they are not competent to carry out unless competent advice and assistance are obtained. Thirdly is confidentiality and a professional accountant should respect the confidentiality of information acquired during the course of performing professional services. They should not use or disclose any such information without proper and specific authority. Fourthly is independence and this suggets having a position to take an unbiased viewpoint in the performance of professional assignments. Accountants must not only maintain an independent attitude in fulfilling their responsibilities, but the users of financial reports must have confidence in that independence. The fifth is technical standards and this implies that professional service should be carried out in accordance with the relevant technical and professional standards. The services should conform to the technical and professional standards of relevant accounting bodies and other legislation.

Factors Influencing Auditors' Professional Skepticism and Ethics

Accounting research on decision-making suggests that cognitive studies need to consider the context in which accounting judgments are made (Fuller & Kaplan, 2004). One context under which such decisions are made is accounting ethics. Ethics requires individuals to perform tasks to an acceptable standard (Schlenker, 1997). The auditing literature reports that when auditors perform their roles in line with the ethics of the profession, it has a significant impact on their decisions. These studies (De Zoort et al., 2006) suggest that accounting ethics increases the auditor"s effort in applying due diligence and professional skepticisms in the discharge of their duties. In addition, accounting ethics makes auditors more cautious, that is, auditors are possibly more skeptical (Morton & Felix, 1991). Peecher (1996) found that auditors made more conservative judgments when they act in line with ethical standards. Similarly, Nieschwietz et al. (2000) suggested that accounting ethics should increase the effectiveness of the audit because it makes auditors more objective. The results of the above studies suggest that the enforcement of accounting ethics is likely to increase professional skepticism because auditors will increase cognitive effort and vigilance which makes them proceed cautiously.

Audit tenure is the length of time the concerned auditor has conducted an audit of a unit/ business unit/ company or agency. The researcher assumes that the longer the auditor conducts the audit, the poorer the resulting quality of the audit. This is because the auditor has had less challenges and the auditing procedures performed are less innovative or may fail to maintain a high level of professional skepticism (Syamsuddin and Abdul 2014) America"s most iconic companies, such as General Electric and Coca-Cola, have been audited by the same accounting firms and their predecessors for over 80 years (Le Vourc'h and Morand 2011). Some investors and regulators fear that auditors who have maintained these long relationships with clients will fall victim to the halo-effect. Defined as the human tendency to like or dislike everything about a person (even the unobserved), the halo effect could cause an auditor to unconsciously give management the benefit of the doubt because of their long-term relationship (Selling 2012). While the halo effect could conceivably impact and auditor"s judgment, the relationship between auditor tenure, professional skepticism, and audit quality is quite complex. The traditional argument for reducing the length of auditor-issuer relationships is that doing so will increase skepticism and thus improve audit quality. However, decreasing the length of these relationships could also result in the loss of a great deal of institutional knowledge by auditors (McGarry, 2012).

Many financial experts believe the greatest threat to the independence and professional skepticism of the external auditor isn't long audit tenures or the increased provisioning of non audit services, but rather the pay structure of the external audit itself. Since the inception of the external audit, many investors, regulators, and academics have argued that auditors cannot truly be independent of their clients, because auditors are hired and paid by the people whose work they are auditing. McGarry (2012) opined that this isn't technically true; as per SOX, the hiring, firing, and compensation of auditors is controlled by the audit committee of each company's board of directors (rather than the company's management), a body that represents the interests of investors. Furthermore, the appointment of the auditor must be decision, since it is management that works with the auditors on a day-to-day basis ratified each year by the majority of shareholders. In reality, however, audit committees usually rely heavily on management. For the same reason, ratification of the auditor by shareholders is considered a routine vote, and management's recommendation is rarely challenged. Thus, management is widely considered to exert considerable influence over the appointment and compensation of external auditors.

Furthermore, the experience of auditors is also another effective factor that can influence professional skepticism. Experience of auditor means the period of time they have audited the financial statements. So it said that whatever their experience is more, they can explain their findings more decisively. Experience like the formal and informal training improves the capabilities of auditors to judge professionally (Gunasti, 2010). Experience along knowledge of auditors is an important factor in audit process Experienced auditors have comprehensive knowledge about the financial misstatements and deficiencies of accounting system of audited unit. Studies of Kalber and Fogarty (1995) showed that experience of auditors has positive effect on their other professional skepticism and improve their professional behavior.

Empirical Discussion

Various studies have been carried out on auditors’ ethical conducts. For instance, Fatt (1995) considers the perceptions of the public, students, and accountants of the values of accountants in the working world. In the course of the research by Fatt (1995), a questionnaire was given to a sample population of 500 which included the public, accounting students, and accountants.

The questionnaire was designed to examine the personal qualities of accountants. It is discovered that the perceptions of the personal qualities of accountants are that accountants should be ethical and have integrity. These perceptions reflect the importance of ethics in the accounting profession. Gendron, Suddaby and Lam (2006) explore the relationship between work context and professional ethics. They generated data through an online survey of auditors on the degree to which changing work conditions have altered individual auditors' commitment to the core professional value of auditor independence. They observed that auditors working outside of public accounting have a higher commitment to independence than auditors working in the context of public accounting firms. They further observe that auditors in large international audit firms report lower commitment to auditor independence than do others in public accounting. Satava, Caldwell, and Richards (2006) describe how the rule-based traditions of auditing became a convenient vehicle that perpetuated the unethical conduct of firms such as Enron and Arthur Andersen. They present a model of ten ethical perspectives and briefly describe how these ten ethicaland principle based ethical conduct for auditors. They conclude by identifying six specific suggestions that the auditing profession should consider to restore public trust and to improve the ethical conduct of accountants and auditors. Nwayanwo (2010 examines the observed and expected acceptance of the significance of ethics in accounting practice in Nigeria using Chi-square test. He disclosed that a large difference exists between observed and expected acceptance of the significance of ethical standards in accounting practice.

According to Ogbonna (2010), when we talk about things, which we think, say and/or practice that may not necessarily violate the rules of the organization or infringe the law of the land or amount to outright crime or felony, but which borders on our sense of morality, our sense of right and wrong. They concern issues like conflict of interest, insider’s dealings, compromising integrity, objectivity, independence, confidentiality, disclosure of official secret and destruction of official documents for financial benefits and other similar acts that are against moral principles and ethical standards. Nwagboso (2008) argue that ethics or morality as matter of right and wrong and subscribes to the fact that “we are living today in an ethical wilderness”. Nwagboso believes that ethics is in ferment and chaos among all people Hayes et al (1991) opined that ethics represent a set of moral principles, rule of conduct or values. Ethics apply when an individual has to make decision from various alternative regarding moral principles. Ethical behavior is necessary for society to function in an orderly manner. The need for ethics in society is sufficiently important that integrity, loyalty, and pursuit of excellence cannot be incorporated into law. They further stated that the following ethical principles incorporate the characteristics most people associate with ethical behavior & honesty, integrity, promise keeping, loyalty, fairness, caring for others, pursuit of excellence and accountability.

Ajibolade (2008) states that the field of ethics can be divided into Meta ethics, ethical theories and applied ethics. Meta ethics reflection is upon ethics concepts and theories ethical theories is the substantive proposals regarding those considerations that would determine morally acceptable conduct and applied ethics is the deliberation related to a specific field of enquiring. Examples include ethics in business, public service and general professional ethics. Mathew and Perera (1996) states that a formal code of ethics ensures that professional members will be more aware of the moral aspects of their work, an accessible reference tool for managers to keep ethical concerns in mind; abstract ideas will be translated into concrete terms applicable to every situation, members as a whole will act in a more standardized fashion throughout the profession. According to Jenfa (2000) and Nwagboso (2008), professional ethics provides account with these advantages: it helps the accountants to determine the prosperity of his conduct in his professional posture the accountant must maintain if he is to succeed; it gives potential clients a basis for feeling confident that the professional sincerely desires to serve them well and places service above financial reward; it gives client assurance that standards of competence independence and integrity shall remain the goal regulatory authorities to fulfill their responsibility of ensuring that the professional accountants have the capabilities and competence expected of them by employees, clients and public interest is protected and the credibility of the profession is enhanced.

THEORETICAL FRAMEWORK

Utilitarian Theory

Utilitarian is one of the best known and widely used moral theories. It is a normative ethical theory that places the locus of right and wrong solely on the outcomes (consequences) of choosing one action/policy over other actions/policies. As such, it moves beyond the scope of one's own interests and takes into account the interests of others. The Utilitarian Theory according to Mill (1863) states that one should do the most good over harm. In making the decision, one must evaluate the alternatives to decide on the one which benefits the most people.

Theory of Inspired Confidence

This theory focuses on both the demand and supply of audit services. The relationship of accountability is realized with financial statements; however, as outside parties cannot monitor any material misstatement, the demand for an independent reliable audit arises. The supply of audit services should satisfy the public confidence that arises from the audit and fulfill community expectations, as the general function of audit is derived from the need for independent examination and an expert opinion based on findings; due to the confidence society places in an independent auditors' opinion. It can be assumed that if society lost confidence in audit opinion, the social usefulness of audit would cease; as audit delivers benefits to the users of financial statements. The auditor should maintain appropriate business practices to maintain his independence from the firm being audited, in order to satisfy his obligation to examine business practices and provide a credible opinion on the financial statements.

The Credibility Theory

Audited financial statements boost users' confidence in an organizations financial records and management's stewardship; in turn, improving their decision quality such as, investment or new contracts, based on reliable information. This is because stakeholders need to have faith in the financial statements. The credibility gained by financial statements would affect decisions by stewardship. (E.g. Credit limits provided by suppliers) and also helps shareholders put trust in management; reducing the 'information asymmetry' between stakeholders and management.

The Theory of Stewardship

A steward is one who takes on the responsibility of caring for something on behalf of another person or group of people. Therefore, stewards do not have ownership of what they have responsibility to take care of, but must, nevertheless, carry out their duties conscientiously since they have to render account of what they have done. Stewardship theory is a framework which argues that people are intrinsically motivated to work for others or for organizations to accomplish the tasks and responsibilities with which they have been entrusted. It argues that people are collective minded and pro-organizational rather than individualistic and therefore work toward the attainment of organizational, group, or societal goals because doing so gives them a higher level of satisfaction. Stewardship theory therefore provides one framework for characterizing the motivations of managerial behavior in various types of organizations. Stewardship theory also holds that an organization requires a structure that allows harmonization to be achieved most efficiently between directors and shareholders. Thus it might be thought that issues of "motivation, goal congruence, trust and organizational identification have been captured in the stewardship theory of management." (Van Puyvelde et al 2013: 65)

This research work aligns with the utilitarian theory because Utilitarian beliefs emphasize the importance of the greatest good to the greatest number of people (Duska & Duska, 2003). As described by Preuss (1998) utilitarianism is applicable within the accounting context as it tends to link self-interest with moral behavior and a company's actions are invariably self-interested. Additionally the weighing of benefit and harm is comparable to the general audit practice and therefore likely to be easily understood by auditors. "Virtues are dispositional properties that enable auditors to meet their ethical obligations to the organization, users of financial information and third party. For instance, in order for an auditor to act objectively in performing professional services, such as auditing the financial statements of a client, the auditor must have the inclination to be impartial and open-minded" (Mintz, 1995: 251). Finally the universal rules set by Kant emphasize actions that will result in the greater good for society. These actions revert to the principle -based foundation of accounting and auditing (Satava et al., 2006), which if followed will steer the professional's ethical decision making towards the greater good and away from any possibility of self-interest motivated actions.

METHODOLOGY

The study adopted exploratory assessment methods by reviewing research work done by other writers and authorities in related field. The study relies on many previous studies from internet, books and already existing journals to explain the underlying need for an upheld professional ethics conduct, concept of audit practice in Nigeria and its alignment with professional ethics code. The research builds on an analysis of discourses within the range of archival evidence.

RESULT AND DISCUSSION

The aim of the research was to explore the impact of audit practice on professional ethic. A lot of existing works were discussed which made a vast contribution to the body of knowledge concerning professional ethics and audit practice. The research has shown that the impact of professional ethics on audit practice cannot be over emphasized. International Federation of Accountants (37) and its subsequent amendments provide code of ethics for auditors. In the same vein, "The Nigerian Companies and Allied Matters Act, 1990" (as amended) particularly Sections 358- 363 also made provisions that could enable an auditor to avoid relationships that result in undue pressure and conflict of interest so that his report can be taken as being of high quality thus an important factor contributing to the success of the audit is ability to be independent, to act as a watchdog' and to conduct audits timorously.

CONCLUSION AND RECOMMENDATION

The researcher has noted that lack of professional ethics contributes to the ineffectiveness of quality duty disbursement as it relates to some listed firms in Nigeria which would have encouraged keeping of accurate records of accounts hence discouraged corrupt practices among staff. Empirical studies in this research work shows that faithful compliance with codes of ethics increases the quality of audit report. Auditors, like other professionals need these ethical principles such as credibility, honesty, integrity, loyalty, respect, responsibility, show of concern for the benefit of others, caution, justice and adherence to the laws and regulations as outlined CAMA 1990, as the result of their work affects the general public, customers, shareholders, community, stakeholders etc. Therefore, there must be a total commitment to the rules of ethics and professional conduct by the auditors in order to positively impact on audit quality. The existence of ethical code of conduct is considered an essential guide for every profession accountant and auditor in practice. The adherence to professional ethics will help ensure that auditors are able to withstand such factors as incentives and pressures affect the objectivity and skeptical nature of the auditor which is required for financial reporting credibility to be maintained. However, scholars do not agree on the extent to which the auditors abide by the ethical code nor the reasons for non-compliance.

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