CHAPTER 8
ETHICAL BEHAVIOUR IN AUDITING

Dharventh Chandira Segaran and Dewi Fariha Abdullah

8.1 INTRODUCTION

In recent years, a series of fraudulent scandals at big companies have thrown the spotlight sharply on business ethics. The high number of publicized financial scandals such as Enron, Arthur Andersen, Tyco, and WorldCom had brought down the integrity and credibility of public accountants into question by society. Besides that, accountants and auditors are experiencing high pressure to perform well and gain positive impressions from their employers, clients, and colleagues to progress further in their career paths. This motivation could influence auditors to engage in unethical practices. And before long, they start to feel that unethical behaviour is accepted to a certain degree as long as their goals are accomplished.

As the practice stands, auditors can easily come across cases like bribery, money laundering, and asset misappropriation in the current business world. There are three main factors, also known as the fraud triangle, that push an individual to commit fraudulent activity: pressures, opportunities, and rationalisation (Arens et al., 2014). However, auditors have to realise that they hold a very important responsibility and should produce reliable audit reports for the well-being of shareholders, the shareholders–he absence of which will affect public trust in the reliability and credibility of the auditing profession. Thus, auditors and accountants should start shaping their ethical behaviour to only do the right thing. However, ethical judgement may vary for each individual, as what is right in a situation for someone might just be wrong for another individual in the same situation based on their behaviour and the values they hold (De Bono, 2017). Another problem is the presence of gender bias in this profession (Thiruvadi, 2012). Early awareness should be instilled in students to avoid being discriminated against based on their gender and to be ethical regardless of their gender, which will prepare them to behave more ethically in their workplace. Employers and educational institutions should be concerned about the students' perception of ethics, as they are going to be the future workforce (Lau et al., 2012).

Therefore, the prime aim of this study is to obtain more information about the students' ethical behaviour and their perceptions about ethics in auditing. The first objective of the study is to examine whether gender differences affect an individual's ethical behaviour. The second objective is to examine the relationship between students' perception on ethics in auditing and auditors' ethical values, which are integrity, objectivity, and confidentiality. The elements of integrity, objectivity, and confidentiality will be tested because these elements are more relatable to ethical behaviour without the influence of any external factor. Professional competence, due care, and professional behaviour will not be tested because the presence of external factors like the professional body, professional qualifications, standards, and regulations are related to the elements. In overall, this study intends to gather students' perceptions of auditors' ethical behaviour and the need for ethics in auditing.

8.2 BACKGROUND ON ETHICS AND AUDITING PROFESSION

Ethics is commonly referred to as a set of moral principles that govern a person's behaviour or the conducting of an activity (Stevenson, 2010). Ethics is the most important and functioning branch of philosophy in everyone's life today, and in general, it is a moral philosophy (Gulcan, 2015). According to Gulcan, there are a few types of ethics which are normative ethics, meta ethics, descriptive ethics, and professional ethics. This study will emphasise more on professional ethics since it will discuss ethics in the auditing profession. Foster and Lasser (2011) reveal that ethics is known to be a wide field that can be implemented in disciplines and how this field acts as a guide to the actions and decisions of society and individuals. As a conclusion, if society wishes to function in an orderly manner and embrace the values of understanding, fairness, compassion, gratitude, and respect for one another, then proper ethical behaviour is necessary in order to achieve it.

The auditing profession is becoming very popular nowadays, and people often engage in it because of the potential to grow in this field and the admirable social status in society. Adeyemi and Fagbemi (2011) stated that the public holds a high regard for the audit profession and describes this profession as having a high social status. This profession is highly respected since it deals with the reliability of reports produced, which will benefit various stakeholders and users. Major business decisions are taken by stakeholders based on the financial reports produced by audit professionals. Paino et al. (2010) expressed that auditors' behaviour reflects their individual characteristics and personalities when they perform their audit services. An auditor who possesses a high ethical orientation has a higher tendency to report errors, which will result in an improvement in audit quality (Chadegani et al., 2015). Hence, auditors must assure that the audited financial statements are free from any material misstatements like fraud or error and, at the same time, make sure they conduct the audit in compliance with the International Standards on Auditing (ISA) (Oraka & Okegbe, 2015). Therefore, it is important for an auditor to maintain balance in their profession to avoid conflict of interest and focus on their objectivity as a sincere and diligent auditor.