The Role of Professional Ethical Principles in the Performance of Audit Institutions

Shahnaz Mahmoodi and Masood Hanifeh

Lecturers in University and senior students of PhD of Economy

INTRODUCTION

Now, the condition of conventions and various ethical regulations, establishment of the various civil and ethical organizations showed the role of humanistic ethical issues in dynamics of the social relations. Improving the health of humanistic environment and the inclination to observe the professional ethical issues in the responsibilities are important indices in performance measure of the management of the society, economy, audit and accounting. The present study investigated the role of professional ethics in improving the performance of the institutions and organizations generally and auditing institutions specifically.

Ethics: Literally, it is the plural form of inner moods and attributes dedicated to the human behavior. In various verses of the Holy Quran, it is meant habit, procedure, mood and the like. In Dehkhoda dictionary, it is the plural form of moods. Morality science is the knowledge of good and evil”. Ethics are some principles showing how to behave if we want to behave correctly. The ethical issues have deep philosophical, religious and legal ground [6].

Materialistic and spiritual capital makes human beings happy when it is with ethical capital. The poor with ethical capital can be rich and be popular. If we want to describe a most prominent person in the world in terms of power or wealth, he is described by ethical issues [Nuri Tajer, 2000].

Individual ethics:

The behavior of any person except his social status and job position is based on good or evil behavior. When a person tell lie to himself and deceives himself or commit crime, this behavior is not ethical and a person who is honest with himself, his behavior is based on ethical issues. If he is far from realism, he believes any belief whether good or evil. According to Gilford, his behavior is not based on ethics. People behavior can be based on ethical issues or not in their external relations with others, one person is generous, the other is close fist. One is humble, the other is proud. Any person is responsible for his behaviors. This responsibility is based on definite principles and these principles create individual moral.

Professional ethics:

Professional behavior is used in applied morality branch and it is including a value system on which good and evil, right and wrong of the behavior of the profession owners are defined. Professional ethics is classified into two groups: Professional ethics and the knowledge dealing with the professional ethics in business. In other words, professional ethics is the ethical responsibilities of the institution against the environment is direct or indirect and is based on people rights principle and believed that “environment has the right and the institution
duty”. Professional ethics is the communicative behavior of the organization with the environment based on the obligations and duties [4].

According to Blumer” Being professional is propagating the superiority standards in a definite ground and determining the behaviors models, developing responsibility feeling, determining the employment and educational regulations, guarantee the support of the members, full control and giving importance to it as they achieve their social position in the society. International Federation of Accountants (IFAC) considered the following features for the behavior code of professional accountants:

1. Being expert in specific skill based on thought that is achieved via training and experience.
2. The commitment of the members to the behavior code and their belief to the common value system being formulated by profession center.
3. Accepting the responsibility to the society generally

According to IFAC in an auditing environment, cultural norms or ethical issues are the foundation of technical standards, quality control and auditing process and are presented as:

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Ethical principles
  Technical standards
    Quality control
      Auditing process
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“Being committed to ethical issues is arising from the individual beliefs not a series of rules. Thus, professional honesty dimensions should exceed professional regulations” [Robert, 1970].

Ethical issues have special position in practical professions as due to his knowledge or skill, he can abuse the lack of awareness of the clients and it is required to control all his deeds in a professional behavior code system in order that the users of professional services are protected against any spiritual or materialistic violation.

One of the main principles of professional ethical issues is the trust concept. Trusting the audit services is dependent upon some features of auditor. Humanistic high values, ethical qualification and natural talents are necessary features of auditing. A professional accountant or auditor should do his duties accurately to achieve the trust of people. The ethical responsibility of an auditor is higher than his legal and professional responsibility. At first, the auditors should be committed to ethical values and do their duties in the framework of the values. Ethical qualification is one of the pre-requirements of independency and impartiality. The auditor shouldn’t distort or hide important information or be influenced illegally by the managers. The technical and professional comments of the auditor should be based on the evidences being collected in auditing process with independent vote and free will [8].

As new organizational behavior is encountered with increasing complexities, the more familiarity of the managers and organization employees with these complexities and recognizing the suitable strategies to cope with them is necessary. Maintenance of trust level in work and commercial relations is the foundation of the success of the organizations and companies. The management based on trust gives us the strategy by which we can have a good position in the current competitive market to attract and keep the customer. In all working fields, a degree of trust is observed in the parties relations and trust has an important role in developing effective collaborations. Although there are various motivations for collaboration and trust, there are many reasons to create distrust between people and groups [11].

Trust is based on past performance. Trust is considered under the condition we want to rely on others. To take decision about what we should do, it is required to rely on the behavior and performance of others and have expectations of their performance for this trust. Barber (1983) mentioned that there are three different types of expectations:

1. The expectations in relation with the normal social life and maintaining stability, order and law.
2. The expectations in relation to technical performance: Like our expectation of a surgeon in successful operation.
3. The expectations from others in relation to the duties and obligations.

When strategic system of human beings is considered as internal ethical measures, honesty is observed but as integrity and honesty are only the sign of internal explanation of the values to achieve the aim that this formation of internal personality should be educated [Saleleh A, 2010].

The behavior legality is rising from responsibility. The more the responsibility of people, their more continuous their behavior. Responsibility is arising from observing ethical issues and being committed to the law. It can be said that the mere reliance on law to increase the working responsibility of the employees is not effective. The internalized ethical issues in a person can increase his responsibility. Being committed to law in a human being despite the nature and pet animals is arising from the responsibility of a person. The responsibility arising from awareness and directs a person to justified risk taking and behavioral concerns. A person responsibility is legal or ethical. Ethical responsibilities play important role in commitment of a person and organization to law. Organization responsibility created original trust of the environment and guaranteed the organization success. The organizations responsibility is not only to be effective and their responsibility is to give service to the society there do their activities.

In the studies, the role of ethical issues is important in employees’ performance and their work. The employees with ethical commitment to the organization and they are obliged to fulfill the organization aims are more interested in doing their work in the organization compared to those who work only due to their legal duties. They know duty in the organization as an ethical obligation and this interpretation causes that management controls in the organization is facilitated and most of the rules are not necessary. Team work in such companies and organizations is mostly an ethical obligation rather than administrative duty. In recent years, some of the managers of some companies as Enron, Taiko and WorldCom violated ethical principles to achieve the abnormal benefits. Their reason was that the aim of a company is maximizing earnings for the stockholders even at the price of violating ethical issues [11].

From the view of some people, greediness in trading is a good affair and this is considered the factor to achieve more profit. According to them, by suggesting ethical rules, the motivation of people for progress is lowered and the companies get weaker but the above belief is not extensive because the motivations exceeding the earnings can be considered as motivation and we cannot do anything just for earnings and commit immoral behavior. The companies and the employees should increase the wealth of the company owners not just their profit. People wealth is beyond earnings (income increase), good morality, respectfulness, trusting others, internal and mental comfort and mental fulfillment being achieved after honesty are the best humanity wealth. Dignified life is more satisfactory than fame and wealth and public trust in long-term is combined with ethical behavior in trading and this can create long-term benefits. The USA airline scandal, Siemens scandal 2008, Brings bank, Lehman brothers, Angelo Irish bank, Medaf investment fund, Nortel, Global crossing, A.A.G insurance, Freddie. Mac and scandal of Enron Company are the disclosed samples. Major scandals in some companies as Enron and WorldCom considered “ethics” as the aim of accounting authorities as the managers with the collaboration of accountants were managing the benefits and were giving wrong information about the costs. They were exaggerating about the income and neglected the business cash and misrepresented the financial statements and by receiving bribe and dedicating rewards did some hidden transactions. Any civilized society is based on ethics, without ethics the civilization is collapsed. Observing ethical issues by business institutions improves the public trust to the goods and services. Morality should be trained because people were not born by inclination to morality and observing the others rights and society welfare. Thus, accountant society teach ethical issues and ask their members of observe it [5].

In the late 80s, by the development of multinational companies and financial markets in USA and Europe and Japan and the inefficiency of the internal control system of a part of great economical units, Tread way commission (COSO) with the support of an association in professional convention of accounting and audit and financial were held and published The Committee of Sponsoring Organizations of the Tread way Commission (COSO) report. The main framework of internal control systems to achieve the logical assurance of implementation of aims were stated in three general sections of effectiveness and efficiency of operation, the reliance of financial reporting and observing the rules. After the great frauds of the mentioned commission by revising their new report, dedicated the great part to the evaluation of risk and fraud and responding the expectations of people to prevent the fraud. The report of commission emphasize mostly on the importance of manipulation and ethical issues. Control environment issue is one of the main components of internal control systems based on ethical and behavioral measures. Some parts of this report to find about the importance of ethical issues are explained as:

- The internal control effectiveness depends upon the integrity and ethical issues of the employees designing, implementing and supervising them.
- Integrity and ethical issues are the main principles of control environment.
- The healthy ethical environment in all levels is vital for the improvement of the enterprise, the beneficiary and the society.
- Ethical behavior and integrity of management is the product of “organizational culture”.
- Organizational culture is consisting of ethical and behavioral measures, transferring the measures to the employees and their promotion in practice. Treadway commission believed that behavioral standards include the cases exceeding the mere observation of the rules. The society expects the enterprises to observe more rules and obligations for the good attribute and fame given to the enterprises.

Behavioral and ethical issues of any profession are the most important policies. These policies include some cases as the main features of profession, the relations of profession members with the society, profession members’ relations with each other and the relations of each member with the profession community. Accounting and auditing profession had different position due to being accountable. People expectations of these people are high and the people should trust the quality of the complex services presented by accounting profession but keeping public trust to accounting is possible until the professional accountants present their services in accordance with the trust of the society. Thus, accounting job services should be presented at high level and observing the regulations guaranteeing the continuance of these services with good quality, the users of accounting services namely the decision makers using the financial statements expect that the presented information are considerably efficient, reliable, real and unbiased. Thus, those who work in accounting field, not only should enjoy the professional conditions but also they should have high degree of professional integrity.

Public benefits:
Accepting the responsibility to the society is one of the important features of any job and acceptance of any job depends upon the responsibility of that job [10].

From the view of accountant profession, public benefits are the group happiness of people and the institutions to which the professional accounts give service. The society the accountant profession is dealing is consisting of clients, investors, government, creditors, employees, employers and other people who rely on the results of the work of professional accountants in their informed decisions. Such reliance for accountant profession to keep the public benefits creates responsibility.

Thus, the responsibility of the professional accounts is not restricted only to meeting the demands of an employer or client. Thus, to formulate the accounting standards, public benefits are considered. Observing public benefits requires meeting four social demands [1].
- Information credit: The society needs valid financial information and information systems.
- The introduction of professional experts: Clients, employers and other beneficiary should easily identify professional accountants.
- The quality of services: Being sure of the fact that the services of professional accountants is done with the highest quality.
- Trust: The users of professional services should be sure that the professional accounting services are done in the form of organized behavior supervising the presentation of their services.

The role of professional accountants in the economy of society and observing public benefits required that organized regulations are formulated on professional behavior and morality of the accountants to keep the public trust to this profession. The responsibility of professional accountant is not restricted to meeting the demands of client and meeting the demands includes many people. Thus, professional standards are considerably affected by public benefits considerations. For example, independent auditors by giving their comments on financial statements help the financial investors to invest and give financial loan. The financial managers by selecting the best solutions provide the effective use of the economical units’ resources. Internal auditors prove great assurance to internal controls and the reliability of the information provide for external economical units is increased.

Professional accounts are accountable to public benefits and keeping the fame of accountant profession. The personal interests shouldn’t dominate these duties and the accountants deal with wide range of issues from the customers. They have access to sensitive and confidential information and they should have independent view [2].

A professional accountant should observe the technical and professional standards stated form the following institutions to be in accordance with the ethical issues [3].
- International Federation of Accountants (IFAC) in international Standards of Auditing (ISA)
- International Accounting Standards Committee (IASC), in accordance with the accountant profession instructions and observing the rules of law making institutions and companies.

Fundamental principles of accounting:
The requirement of achieving the aims of accounting profession by professional accountants is being committed to fundamental ethical issues of accounting. Each of the professional society of accounting formulate their specific ethical issues and they are more similar with each other and all meet the efficiency, reliability,
professional and credit of the accounting credit demands. The accounting ethical principles that are agreed by all accounting professional associations and observing them meet the goals of this profession are as following [13].

a. Integrity: A professional accountant should be honest in doing his professional services.

b. Professional qualification: A professional accountant should do his professional services with accuracy, qualification and hardworking. He is obliged to keep the professional skill and knowledge as it is assured that his services are acceptable and based on the latest changes in rules and profession.

c. Confidentiality: The professional accountant should consider the confidentiality of information in presenting the professional services and he shouldn’t disclose such information without the permission of the client unless he is legally permitted to disclose it.

d. Professional behavior: A professional accountant should act as it is consistent with his professional good intention and avoid the deeds having adverse effect on the credit of his job.

e. Professional principles: A professional accountant should do the professional services in accordance with the professional principles and do the requirements of the client with skill as being consistent with the requirements of integrity, impartiality and independency of the professional accountants.

Conclusion:

If audit and accounting operation is done by people with professional morality qualification, it can have positive effects on credit and certainty of financial reporting. If the process of audit and accounting is done by people who didn’t observe the professional behavior regulation, in addition to bad effects of economical unit, it damages the social value of the accountants. When financial reports users are aware of the lack of ethical qualification of the reporters of accounting and auditing, the loss of it is mostly the costs of financial and audit services. But if the mentioned reports are the basis of economical decisions, the damages are terrible. Thus, presenting reliable reports to take good economical decisions required the promotion of professional ethical issues, establishment of corporate strategic system and good quality control system in economical units to improve the trust of the society to the accountants and auditors.

REFERENCES