

ETHICS OF THE ACCOUNTANCY PROFESSION AND DEMOGRAPHIC VARIABLES: A SCRUTINY OF PAST STUDIES AND DIRECTIONS FOR FUTURE STUDIES

Vedava P.¹

¹ Department of Commerce, Mangalore University (India)

ABSTRACT

The profession of an accountant exemplifies in all the attributes required of a profession and over the years has bloomed into a full-fledged and vibrant profession. Professional credibility in accounting profession maintained with integrity and honesty not imperilled by the presence of undue influence and conflicts of interest, that is with as much independence as possible is called the ethics of the accountancy profession. In view of the vast scale of accounting scandals with a devastating effect on stakeholders, the challenges for the professional accountants are multidimensional and complex. Understanding and regulation of the professional behaviour is crucially dependent upon gaining an insight into a number of issues related to the ethics of the Accountancy Profession. Thus, it is important to have a general acquaintance with the various issues before initiating any measure to deal with these challenges. The impact of demographic variables is one of such issues requiring a careful scrutiny. It is here the review of multiple literatures related to the impact of demographic variables can greatly facilitate such careful examination of the impact of demographic variables on the ethics of the accountancy profession. Although demographic issues influence all human activities and previous studies have recognised the impact of demographic variables, few accounting studies have integrated demographic issues into their literature. This is especially true of the ethics of the accountancy profession. Thus, there is a dearth of an in-depth study on the impact of the demographic variables on the ethics of the accountancy profession in the context of a different culture as well as a changing professional scenario. There is also a need for replicating and extending the study of demographic variables. The results of the various studies reviewed above are not foolproof. Therefore, there is a scope for further research concerning the same area.

Key words: *accountancy profession, accounting scandals, ethics of the accountancy profession, demographic variables*

1. INTRODUCTION

In view of the vast scale of accounting scandals at Enron, WorldCom, Health-South, Anderson, Satyam Computers, and recently at Infrastructure Leasing & Financial Services (IL&FS), with a devastating effect on

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stakeholders, it's not surprising that the government and the public assume that the underlying problems are corruption and criminality –unethical accountants falsifying numbers to protect equally unethical clients (Vedava, November 2018[1]) and the challenges for the professional accountants are multidimensional and complex. Clearly, an effective legislation to protect the interest of the various stakeholders is the need of the hour (Vedava, 2017 [2], December 2018[3]). It is important to have a general acquaintance with the various issues before initiating any measure to deal with these challenges. The impact of demographic variables is one of such issues requiring a careful scrutiny. It is here the review of multiple literatures related to the impact of demographic variables can greatly facilitate such careful examination of the impact of demographic variables on the ethics of the accountancy profession. Accordingly, this paper, after clarifying some of the important concepts, reviews the literature pertaining to the impact of the demographic variables on the ethics of the accountancy profession.

2. CONCEPTUAL FRAMEWORK

In this section, an attempt is made to briefly explain the key concepts related to the topic. The most important concepts included are: Accounting profession and Professional Ethics, and Accounting Ethics.

2.1. Accounting profession and professional ethics

According to Maurice (1996 [4]), “to understand the ethics of accounting profession . . . general acquaintance with the profession itself and in particular the practising element in the profession is more important than an appreciation of ethical theory” (p.1). Dani (2003 [5]) states:

In common usage, professions have often been defined in the following terms: possession of body of special knowledge, practice within some ethical framework, fulfilment of some broad societal need, and a social mandate which permits a significant discretionary latitude in setting standards for education and performance of its members (p.1675).

Salmonson, Hermanson and Edwards (1977 [6]) state that in our society accountants are generally employed in (1) Public accounting, *i.e.*, practising chartered accountants, (2) Private or Industrial Accounting which includes both chartered and other accountants and (3) Not-for-profit sector which also includes both Chartered Accountants and other accountants. Independent accountants who are concerned with public accounting are professionals. As described by Neale (1996), accountants within the business (private accounting which includes management accountant and financial accountant and not-for-profit accounting) are not commonly considered as professions. Independent professional accountants' principal purpose is performing the attest function, *i.e.*, auditing. Management advisory and tax services are the other services offered by them.

The term ‘ethics’ is commonly perceived as a state of right or wrong. In the words of Dani (2003 [5]) the concept of ‘professional ethics’ flows from the definition of “profession” itself and interpreted as “rules of correct and honourable conduct” adopted and/or applied to a given profession. According to Neale (1996 [7]), “a standard of conduct considered appropriate to a professional person is often dignified by reference to behaviour in accordance with professional ethics” (p. 220). According to Ramachandran (2003 [8]),

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“professional ethics covers the professional’s conduct towards his peers, his clients, his employer, his fellow professionals and the various segments of the society” (p. 1671). Professionals are expected to be persons of great character and integrity. The code of conduct, by the professional bodies on its members, assures that professionals safeguard and serve public interest.

2.2. Accounting ethics

Ward, Ward and Deck (1993 [9]) stated: “The profession of accounting has traditionally commanded an exceedingly high level of respect and admiration, receiving superior marks for ethical standards” (p 601). Accounting ethics is implied by the manner of actions followed with such principles as objectivity, independence, confidentiality, avoiding conflict of interest and technical standards. According to Melé (2005 [10]), code of ethics for accountants gives guidelines for proper behaviour in profession.

According to Cottell and Perlin (1990 [11]), the approaches to ethical education in accounting, usually including such normative theories as Kantianism, Utilitarianism and other rationalistic ethical theories reflect on the idea, implicitly or explicitly, that ethics in accounting, as in other matters, is an “application of ethics or morality (---) to practical issues”(p.100). But, as observed by Melé (2005 [10]), ethics in accounting should be more than just knowing and applying rules. Shafer *et al.* (2004 [12]) recognised: “Technical compliance with GAAP is a necessary but not a sufficient condition to ensure the fair presentation of financial statements”(p.214). So, a professional accountant, in order to be ethical, must adhere not only to a code of ethics but also to the spirit of code of ethics.

3. DEMOGRAPHIC VARIABLES- A LITERATURE REVIEW

Many studies have found that gender has a significant influence upon the ethical judgement. In other words, the studies have found significant difference between genders for the ethical evaluation. For example, Miceli and Near (1988 [13]) found that women were less likely to be whistleblowers than men. For Haswell and Jubb (1995 [14]), almost 50 per cent of male and 25 per cent of female students would accept a bribe if there was no risk of being caught. In a similar vein, Cohen, *et al.* (1998[15]) investigated the effect of gender on ‘ethical evaluations, ethical intentions and ethical orientation of potential public accounting recruits’ and noted that women consider questionable actions to be more unethical and are less likely to perform these actions than males. Thorley, *et al.* (1998 [16]) found that female accountants have higher level of moral reasoning ability. O’Leary and Cotter (2000 [17]) noted that males were between two and four times more likely than females to act unethically. Furthermore, Adkins and Radtke (2004 [18]) observed that females find accounting education concepts and goals more important than males.

Finn *et al.* (1988 [19]) examined a number of demographic variables such as job title, years in current position, years with current firm, total years of business experience, number of firms worked for, gender, number of employees in firm, educational level, major field of study, income, age, and marital status to determine if they were correlated with ethical problems and found that several of the demographic variables were correlated with ethical problems; however only income was significantly correlated with more than two of the ethical questions such as “CPAs in my firm often engage in behaviors that I consider to be unethical”,

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“successful CPAs in my firm are generally more ethical than the unsuccessful”, and “In order to succeed in my firm it is often necessary to compromise one’s ethics” (p. 612) where the response was given on a seven-point Likert scale from strongly agree (1) to strongly disagree (7). In general, respondents with higher incomes perceived fewer ethical problems within their firms. This was consistent with results found in a study by Chonko and Hunt (1985 [20]). Although income, as a control variable, was significant in more than two of the regressions, it explained very little of the variance.

In the investigation of the proficiency of male and female CPAs in recognising and evaluating ethical and unethical situations, Ward *et al.* (1993 [9]) found gender had a significant effect on the assessment of expected peer behaviours. Female CPAs judged that other CPAs would view the action, as presented in the first vignette requiring the respondents make an ethical assessment of a CPA paying a small compensation to a client for a tax referral (Loeb, 1971 [21]), as more acceptable than did male CPAs. However, their analysis indicated that most practising female CPAs (62.5%) as well as most male CPAs (57.4%) found this behaviour as unacceptable (*i.e.*, their own judgement). When asked about CPA judgements in general, 19.3 per cent of the female CPAs indicated that CPAs would consider the behaviour unethical while 33 per cent of the male CPAs held this opinion. When queried about their own judgement of the conduct of the auditor as presented in the second vignette, which required that the respondents (*i.e.*, CPAs) make an ethical assessment on the failure of the auditor-in-charge to document an audit disagreement in the engagement work papers (Meigs *et al.*, 1988 [22]), both females (79.7%) and males (67.7%) overwhelmingly agreed that the behaviour of the auditor was unethical. The third vignette involved a CPA’s recommendation of a software package to a Management Advisory Services (MAS) client while failing to inform the client that the software company had a potential going concern problem (Mintz, 1990 [23]). The majority of female CPAs (69.5%) as well as the majority of male CPAs (80.8%) perceived the action to be unacceptable. Furthermore, both female and male CPAs thought that CPAs in general would also find this as unethical behaviour. In the fourth, vignette, subjects assessed the impact of a partner’s no action in connection with his audit client’s proposed transaction with an audit client of a different office of his firm involving out of line cost and appraisal values (Meigs *et al.*, 1988 [22]). Both male and female CPAs reflected the acceptance of the behaviour. Furthermore, the majority of the practitioners also felt that other CPAs would accept such behaviour. Further, the majority (female, 62.1%; male, 69.2%) of the practitioners also believed that other CPAs would accept such conduct. In the fifth vignette, a CPA professor was retained to audit his university’s Student Government Association’s financial statements. An unqualified opinion was issued (Delaney & Gleim, 1989 [24]). A greater number of respondents (female, 37.0%; male, 47.2%) indicated that CPAs in general would accept this as ethical conduct. Both the response sets indicated the action to be moderately ethical. The concluding vignette involved the CPA’s fiancé, with whom she shares her condo, acquiring shares of stock in her audit clients (Meigs *et al.*, 1988 [22]). Both the sets of responses reflected the acceptance of the behaviour as ethical for themselves and for the actions of CPAs in general.

Shafer *et al.* (2004 [12]) also examined possible effects of demographic variables on ethical judgements related to auditors’ willingness to advocate client preferred accounting principles. Multivariate Analysis of Variance (MANOVA) models revealed that neither gender nor education level affected ethical judgements or

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behavioural intentions. Regression analyses indicated that neither age, nor years of experience, nor the percentage of time spent doing audit work affected ethical judgements or intentions.

Similarly, McManus and Subramaniam (2009 [25]) also observed the following: first, the accounting firm size was significantly negatively related to the ethical behavioural intention involving the likelihood of a new accounting recruit calling an accounting professional body for advice indicating that respondents from small and middle-tier firms are more likely to call an accounting professional body for advice than those from Big Four firms, namely, Ernst and Young (E&Y); Klynveld, Peat, Marwick, Goerdeler (KPMG); PricewaterhouseCoopers (PWC); and Deloitte and Touche. Second, gender was found to be positively related to respondents' perceptions of the seriousness of an unethical situation (*i.e.*, the ethical judgement). As a result, it was found that female respondents perceive a questionable scenario as being more serious than males.

4. DIRECTIONS FOR FUTURE STUDIES

Although demographic issues influence all human activities and previous studies have recognised the impact of demographic variables, few accounting studies have integrated demographic issues into their literature. This is especially true of the ethics of the accountancy profession. Thus, there is a dearth of an in-depth study on the impact of the demographic variables on the ethics of the accountancy profession in the context of a different culture as well as a changing professional scenario. There is also a need for replicating and extending the study of demographic variables. The results of the various studies reviewed above are not foolproof. Therefore, there is a scope for further research concerning the same area.

5. CONCLUSION

In view of the vast scale of accounting scandals, the challenges for the professional accountants are multidimensional and complex. It is important to have a general acquaintance with the various issues before initiating any measure to deal with these challenges. The impact of demographic variables is one of such issues requiring a careful scrutiny. Given the dearth of an in-depth study on the impact of the demographic variables on the ethics of the accountancy profession, the review of multiple literatures related to the impact of demographic variables can greatly facilitate careful examination of the impact of demographic variables on the ethics of the accountancy profession.

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