

Ethical Issues amongst Professional Accountants in Malaysia: A Review

M. Kanjanapathy

Faculty of Management, Universiti Teknologi Malaysia, 81310 Skudai, Johor, Malaysia.

harinesh22@yahoo.com.sg

Abstract – *Ethical issues are prevalent in every industry. The main stream of the research is targeting the ethical issues among accountants. The purpose of this research is to carry out a study on the factors affecting ethical decision making and accountants' role in maintaining independence. The focus area of this study is to identify the role of Accountants ethics in Malaysia, professional ethics in making decision and evaluating the independence level when making ethical decision. Copyright © 2016 Penerbit Akademia Baru - All rights reserved.*

Keywords: Skills, Competencies, Knowledge, Responsibilities, Experience, Behaviour, Pressure, Ethical Climate, Professional Training, Ethical Decision Making

1.0 INTRODUCTION

Ethics is defined as a moral philosophy which determines the concepts of good and evil, crime and justice, right and wrong [1]. Professional ethics is defined as a person's behaviour or conduct when working in a professional field. Examples of the fields are Accountant, Consultant, Researcher, Teacher, Engineer, Lawyer, Doctor and Pilot. Professionals have the abilities to make judgments, express opinion and make recommendations using their knowledge and skills. The judgments should be governed by standards or code of conduct and ethics. The code of ethics is important as it serves as a guide and the core fundamental principles for the professionals to make decisions.

The types of ethical theory are classified into teleological, egoism, utilitarianism, deontological, justice and relativism. Teleological is an action which is classified as ethical or unethical based on the final verdict or judgement. Egoism is an action which mainly caters for the personal interest or bias. Utilitarianism is an action which considers the benefit that others will achieve from the course of action. Deontological is defined as judgement which is based on actions. Justice is defined as judgement which is based on fairness. Relativism is defined as actions that are judged as ethical or unethical based on subjective factors. Moreover, it is important for the Accountant to make ethical decision because the nature of an audit job is based on trust, independence and integrity. Auditors are required to absorb the rules laid down and apply the rules when making judgments. The success factor of auditors is measured by the aspect of morality and ethics that is implied when conducting an audit [2]. Therefore, it is important for auditors or accountants to make ethical decision.

The public as a whole trust the auditors to provide a clean audit report. Auditors should encompass high degree of integrity and honesty when preparing an audit report. This is due to

the trust of the public on the auditors is crucial to ensure that the firm can be on a going concern basis. When the public lost their trust on auditors it will also give a bad impact on the firm's reputation and it is difficult to restore the trust again [3].

1.1 Background of study

Accountants work in a condition where they are introduced to issues of corporate collapses, fail in the reporting regulations and business fraud. Professional Accountant is responsible for the collapse of Enron, WorldCom, and Satyam Industry. This is due to accountants didn't take up their role seriously in determining the errors or fraud performed by their client and ensuring an unqualified audit opinion is produced. Furthermore, lack of independence from auditors is the reason for increased level of accounting fraud. Auditors who tend to fulfil all their clients' requirement by passing faulty adjustment and dressing the accountant in the way the client desire and non-compliance with the Generally Accepted Accounting Principles (GAAP) have caused public to lose their trust in accountants [4].

Auditors have to act in a high integrity to exercise their duties in order to minimize or curb accounting scandals from rising further [5]. Accounting profession has a purpose which is to serve the public with honesty. Accountants must retain independence all along the accounting cycle [6]. Ethical conduct is crucial in performing an audit task because the audit profession itself is categorized by the trust, independence and integrity. The audit standards and the code of ethics is a strong base for the ethical behaviour. Auditors are required to absorb the rules and apply that rules when making judgments. The success factor of an auditor is measured by the aspect of morality and ethics that is implied when conducting an audit [2].

According to [7], Business actions are being judge by its morality values. This is due to business ethics is a concept where it is also changing according to the technology advancement, new methods are confronted on the utilisation of resources, growing awareness of the individual life where vast technology development has put the urge for business ethics to serve on the society norms. The stakeholder's theory also ensures that the business organization is morally liable to fulfil the needs of customers, vendors and employees. The concept of business ethics has a strong connection with the social responsibility [8].

According to [9], voluntary disclosure is given priority for countries which involve in emerging markets such as Malaysia. This is due to the growth of the capital market is strongly associated by reducing the information gap between the management and investors. Moreover, Malaysia is seen as one of the countries that experience rapid growth in the capital market and this voluntary disclosure will be an added advantage to Malaysia in creating value for sustainability reporting. Nevertheless, corporate governance is used as a mechanism to enforce ethical conduct in an audit committee. This is due to audit committee is entrusted to improve the ethics disclosure [10].

1.2 Statement of the Problem

The efficiency of accountants in performing their task without bias in order to measure an effective ethical decision making is in place when accounts task is being carried out. Negligence in accounting profession has caused Arthur Anderson to pay a high price where it can no longer practise as an Accounting firm. They licensed has been revoked as the company has compromised its independence [11]. The nature of business service provided by Arthur Anderson is consultation service, audit service and also service on improving the company's internal control [11].

Enron and Arthur Anderson:

Enron was formed in the year of 1985. Enron's business nature is natural gas and electricity. During the late 1990's, Enron supplied gas and electricity contracts worldwide.

What went wrong?

Controls were implemented by Washington on who could produce energy and the price mechanisms. Enron started to store gas by buying it earlier and selling it at a fixed price. Enron used internet to promote its trading and this strategy was very successful. The value of Enron's online transactions was \$880 billion. The problem started when Enron was not making money through their online trading as the market started to be very efficient and many competitors offered a better price. Enron has windowed dress their company accounts in order to conceal their business loss. Arthur Anderson was Enron's auditors. Moreover, David Duncan was Enron's chief auditor. He had been assigned to check Enron's accounts. David Duncan had shredded Enron's documents in order to hide them from Securities Exchange Committees' Investigators.

Principles that has been breached:

Enron and Arthur Anderson had breached integrity and professional behavior principles. As an accountant, Arthur Anderson should disclose to public that Enron was making loss and should issue Enron with a qualified audit report. Arthur Anderson should not compromise their independence level.

WorldCom:

WorldCom was a largest telecommunication industry in United States in the early 1990's. WorldCom provided internet services and phone services for a cheaper price than competitors.

What went wrong?

WorldCom began to fall in 1999 due to decline in the stock prices. WorldCom had claimed a pretax profit of \$7.6billion when the actual scenario WorldCom lost \$48.9 billion. WorldCom had manipulated its book-keeping. WorldCom's auditor was Arthur Anderson. Once again, Arthur Anderson had breached its independence level.

Principles that has been breached:

Worldcom and Arthur Anderson had breached the principles of integrity and professional behavior. Arthur Anderson had not complied with Generally Accepted Accounting Principles (GAAP) and failed their duties as accountants and they had acted in their self-interest.

Satyam Industries:

Satyam Industries was formed in the year of 1987. Satyam's business nature was Information Technology provider.

What went wrong?

Satyam had inflated its cash and bank balances. Apart from that, Satyam had also artificially boosted its operating profit from 61core to 649 cores. In December 2008, Satyam wanted to

acquire two group firms which are Maytas Properties and Maytas Infra. The outflow for these acquisition cost \$US1.6 billion. This act was against the corporate governance law.

Principles that has been breached:

Satyam industries had breached the principles of integrity. Satyam was known as a huge profit making industry. Moreover the rise of accounting scandals/ fraud in Malaysia has actually prompt the researcher to carry out study on the accountants ethics. Example of law case: Maxbiz Corporation Bhd & Anor V Public Investment. In this case there is a breach of the fiduciary duty by the Accountant of the Public Investment. This case is filed on January 30, 2012.

Accountants need to have skills, competencies, knowledge and experience to make an ethical decision. This is because the public lay their trust on the accountants report. Reporting independence gives the accountants the right to disclose information to the public. In the event there is a fraud in the company, an accountant has the right to disclose it to the shareholders and public at large. Moreover, new laws and auditing standards has been enforced to gain the public confidence among Accountants and Auditors. However, these laws and regulations will not be complete without a proper auditing attitude. This is because the quality of the Audit report is primly based on the Individual Auditors Judgment. These judgment is influenced by the auditor's knowledge, experience, skills and competencies in performing the audit task [12].

1.3 Research Objectives:

To examine the effects of:

- Job scope in ethical decision making.
- Pressure on ethical decision making.
- Situation on ethical decision making.
- Behaviour on ethical decision making.
- Spirituality on ethical decision making.
- Competencies on ethical decision making.
- Skills on ethical decision making.
- Knowledge on ethical decision making.
- Responsibilities on ethical decision making.
- Moral intensity on ethical decision making.
- Ethical climate on ethical decision making.

2.0 Literature Review

2.1 Introduction

The reason this study was carried out is to minimize the ethical issues among professional accountants. Apart from that, the researcher is keen in finding out the reasons that have contributed to the rise of these ethical issues in an organization and the researcher hopes that this study can be useful in rectifying the root cause of ethical issues in an organization and prevent unethical acts.

2.2 Theory of Planned Behavior

Theory of Planned Behavior tends to understand the factors influencing an individual behavior in a time period. Apart from that, it is also believed that individual behaviors can be influenced

by attitudes, norms and perceived behavioral control [13]. According to Sheeran [14], People intend to do what they want to do. Apart from that, Theory of Planned Behavior also finds that human behavior is influenced by various probabilities. This is due to the beliefs on the normative expectations of others beliefs about the current factors that may facilitate the performance of the behavior [15].

TPB also narrates that an individual should have some control to perform an action. Controls in the form of knowledge, resources and opportunity to perform a certain behavior. Moreover, TPB have two elements which could directly influenced behavior namely intention and perceived behavior control [15].

Furthermore, TPB considers Perceived Behavior Control as a second determinant of the human behavior. Intentions can cause behavior idea is doubted by [16]. According to [14], behavior is governed by automatic process. Therefore, the assumption that human behavior is guided by automatic process rather than intentions.

2.3 Skills, Competencies, Knowledge, Responsibilities, Experience

The prevailing rise of corporate scandals relating Auditors and Accountants has caused the public to lose confidence in the judgments of the Professionals of these fields. The output of Accountants and Auditors report are being questioned for the validity of the disclosure. This is due to the downfall of Multinational Companies despite being audited raised suspicion on the quality of the Audited Report and the information that has reached the public at large [17]. Moreover, new laws and auditing standards has been enforced to gain the public confidence among Accountants and Auditors. However, these laws and regulations will not be complete without a proper auditing attitude. This is because the quality of the Audit report is primly based on the Individual Auditors Judgment. These judgment is influenced by the auditors knowledge, experience, skills and competencies in performing the audit task [12].

According to [18], technical skills are important as it provides a good understanding on the assigned task. Technical skills comprises of factual knowledge on the rules, structure, management systems and employees behavior in an organization. Moreover, these skills also include the strengths and limitations of a product and service. These skills can be acquired through education, training and work experience.

According to [19], customer is an asset that every business should embrace as customer satisfaction is the success of each and every business. Therefore, service recovery is another tool to enhance customer satisfaction as customers are able to feed back on the service provided and this gives the business another opportunity to address the problems that customer faces and ensures that the further service is provided without service failure. Moreover, service recovery also encompass the element of asking for an apology, handling the problems or issues highlighted by the customer and ensuring customer retention through a business which is able to always be aware of the issues that surrounding customers and provide solution in a timely manner [20].

The code of Professional conduct which is laid down by the International Federation of Accountants (IFAC) is integrity, objectivity, professional competence, confidentiality and professional conduct. Auditors or Accountants are required to comply with the code of conduct when preparing accounts. These codes of conduct serve as a guideline to the Accountants in order to act in fair view.

Apart from that, auditors are required to be independent at all times. This is due to ensure that they respect and comply the framework which is confronted by the (IFAC). This also will help the auditors to ensure compliance when reporting the audited accounts. According to [21] the audited financial statement creates a corporate responsibility between the company managers and the stakeholders. This shows the crucial task that the auditors are engaged in providing their respective clients.

2.4 Spiritual Background

It is believed that Malaysian Indian and Chinese Accountants are more likely to adjust themselves to the need of their client as their client is more powerful. These accountants are high in power distance compared to Australian accountants. This is due to Malaysia accountants can't decide by their own on what is ethical or unethical act because according to the Malaysian culture harmony is being placed where the judgment on ethical involves society decision as a whole [22].

In the Chinese society harmony within the group is highly emphasised where everyone in the group has to prevail a good conduct in a hierarchal order [23]. According to [24] Muslims should always ensure that they are doing things which is acceptable by the community. They should involve in activities which is not against their Quran teachings. Muslim people should embrace the teaching in their daily life. Apart from that, it is believed that Muslim people who embrace the Islamic teaching are seem to be more committed to the organization and has a high tendency on job satisfaction [25].

Looking into then behaviour patterns that Muslims need to adopt is basically the patterns which have been lay out in the Quran. This behaviour pattern involves the wisdom, maturity and obedience [26]. Moreover, the concept of Openness to Experience is seen as a different dimension in the Islamic perspectives where the women needs to adorn the hijab, men and women are not allowed to be together without a proper relationship, should always be truthful in whatever task they are doing and conserves emotional balance when engaging in the decision making where they need to uphold and preserves the values taught by the Quran [26].

2.5 Job Scope

International Federation of Accountants has stressed that auditors need to comply with the (IFAC's) code of ethics in order to ensure that auditors will be able to act in their best way to ensure public interest is being taken care. Furthermore, IFAC also believes that apart from integrity and objectivity which is values, culture and values are seem to be the informal factors that can also influence the decision making in the audit opinion.

According to [27] code of ethics is just a guide line for auditors on what they should uphold when signing off an audit report. The enforcement of these code of ethics actually initiate the moral values that an accountant should have when they are accomplishing their task. Ethical conduct is crucial in performing an audit task because the audit profession itself is categorised by the trust, independence and integrity. The audit standards and the code of ethics is a strong base for the ethical behaviour. Auditors are required to absorb the rules and apply that rules when making judgments. The success factor of an auditors are measured by the aspect of morality and ethics that is implied when conducting an audit [2]. The public as a whole trust the auditors to provide a clean audit report. Auditors should encompass high degree of integrity and honesty when preparing an audit report. This is due to the trust of the public on the auditors is crucial to ensure that the firm can be on a going concern basis. When the public lost their

trust on auditors it will also give a bad impact on the firms reputation and it is difficult to restore the trust again [3].

2.6 Integrity

Integrity helps an accountant to act without any bias and choose the right course of action. A person who has integrity is believed to act with moral values and cannot be deviated when there is a negative situation to handle [28]. Furthermore, lack of independence from auditors is the reason for increased level of accounting fraud. Auditors who tend to fulfill all their clients' requirement by passing faulty adjustment and dressing the accountant in the way the client desire and non-compliance with the Generally Accepted Accounting Principles (GAAP) have caused public to lose their trust in accountants [4].

Audit conflict can arise between auditors and client when auditors are not in agreeable terms of the client. Some clients want company auditors to prepare the audit report according to their desire but due to compliance and independence, auditors may not want to follow the request of the clients. Auditors have to act in a high integrity to exercise their duties in order to minimize or curb accounting scandals from rising further [5]. Accounting profession has a purpose which is to serve the public with honesty. Accountants must retain independence all along the accounting cycle [6]. According to Whitcomb, Erdener & Li (1998), knowledge of business ethics helps in setting a standard for ethical conduct in an organization. Examples of standards which have been set are theory of justice, universalism and right theories.

2.7 Professional Due Diligence

According to [29], knowledge of business ethics helps in setting a standard for ethical conduct in an organization. Examples of standards which have been set are theory of justice, universalism and right theories. According to [30], environmental factors are helpful in helping accountants to identify what is considered as ethical decision and non-ethical. Accountants expand their level of moral reasoning and ethical sensitivity when they are more exposed to situational factors as well [27].

Apart from that, employees have to be sent for more ethical awareness workshop or program to enhance the level of ethical sensitivity among them. A leader is chosen based on few qualities that can be easily differentiated among ordinary staff members. Leaders should possess skills and knowledge of resolving issues regarding dynamic and imbalance environmental conditions. Strategic leadership theory helps a leader in making the right decision on handling sticky circumstances [31]. Apart from that, it is understood that a person's ethical sensitivity has some relation with the level of their education. If a person is highly educated, it is noted that he or she portrays a high level of ethical sensitivity [32].

2.8 Professional Behavior

Shaub [33] agreed that ethical orientation has a strong positive link with ethical sensitivity since accountants must possess the ability to recognize ethical situations in a professional manner. Accountants have the right or ability to choose whether they want to maintain their professional status by acknowledging them to be competent and independent [34]. Accountants should have their involvement in the profession. Involvement in profession also entails values and beliefs in achieving specific goals, committed to the task assigned and able to cope with cultural differences and boundaries [35].

REFERENCES

- [1] Forsyth, Donelson R. "Judging the morality of business practices: The influence of personal moral philosophies." *Journal of Business Ethics* 11, no. 5-6 (1992): 461-470.
- [2] Cheffers, Mark, and Michael Pakaluk. *Understanding accounting ethics*. Sutton, MA: Allen David Press, 2007.
- [3] Duska, Ronald, Brenda Shay Duska, and Julie Anne Ragatz. *Accounting ethics*. John Wiley & Sons, 2011.
- [4] Cushing, Barry E. "Economic analysis of accountants' ethical standards: The case of audit opinion shopping." *Journal of Accounting and Public Policy* 18, no. 4 (2000): 339-363.
- [5] Knapp, Alan K. "Effect of fire and drought on the ecophysiology of *Andropogon gerardii* and *Panicum virgatum* in a tallgrass prairie." *Ecology* 66, no. 4 (1985): 1309-1320.
- [6] Brewster, Mike. *Unaccountable: How the accounting profession forfeited a public trust*. John Wiley & Sons, 2003.
- [7] Saks, Raven E., and Abigail Wozniak. "Labor reallocation over the business cycle: new evidence from internal migration." *Journal of Labor Economics* 29, no. 4 (2011): 697-739.
- [8] Rodin, David. "The ownership model of business ethics." *Metaphilosophy* 36, no. 1-2 (2005): 163-181.
- [9] Eng, Li Li, and Yuen Teen Mak. "Corporate governance and voluntary disclosure." *Journal of accounting and public policy* 22, no. 4 (2003): 325-345.
- [10] Abbott, Lawrence J., Susan Parker, Gary F. Peters, and Kannan Raghunandan. "The association between audit committee characteristics and audit fees." *Auditing: A Journal of Practice & Theory* 22, no. 2 (2003): 17-32.
- [11] Wyatt, Arthur R. "Accounting professionalism-They just don't get it!" *Accounting horizons* 18, no. 1 (2004): 45-53.
- [12] Bonner, Sarah E. "Judgment and decision-making research in accounting." *Accounting Horizons* 13, no. 4 (1999): 385-398.
- [13] Smith, Jonathan A., ed. *Qualitative psychology: A practical guide to research methods*. Sage, 2007.
- [14] Sheeran, Paschal. "Intention—behavior relations: A conceptual and empirical review." *European review of social psychology* 12, no. 1 (2002): 1-36.
- [15] Ajzen, Icek. "Residual effects of past on later behavior: Habituation and reasoned action perspectives." *Personality and social psychology review* 6, no. 2 (2002): 107-122.
- [16] Wegner, Daniel M., and Thalia Wheatley. "Apparent mental causation: Sources of the experience of will." *American psychologist* 54, no. 7 (1999): 480.

- [17] Cadbury, A. "Cadbury report: The financial aspects of corporate governance." Tech rept, HMG, London (1992).
- [18] Katz, Robert L. Skills of an effective administrator. Harvard Business Review Press, 2009.
- [19] McCollough, M.A. and Bharadwaj, S.G., 1992. The recovery paradox: an examination of consumer satisfaction in relation to disconfirmation, service quality, and attribution based theories. *Marketing theory and applications*, 119.
- [20] Tseng, Ming-Lang. "A causal and effect decision making model of service quality expectation using grey-fuzzy DEMATEL approach." *Expert systems with applications* 36, no. 4 (2009): 7738-7748.
- [21] Hayes, Jeremy, and Pat Finnegan. "Assessing the potential of e-business models: towards a framework for assisting decision-makers." *European Journal of Operational Research* 160, no. 2 (2005): 365-379.
- [22] Patel, Chris, Graeme L. Harrison, and Jill L. McKinnon. "Cultural influences on judgments of professional accountants in auditor–client conflict resolution." *Journal of International Financial Management & Accounting* 13, no. 1 (2002): 1-31.
- [23] Stover, Leon E. *The cultural ecology of Chinese civilization: Peasants and elites in the last of the agrarian states*. Vol. 1192. New York: Pica Press, 1974.
- [24] Ali, Abbas J., and Manton Gibbs. "Foundation of business ethics in contemporary religious thought: The Ten Commandment perspective." *International Journal of Social Economics* 25, no. 10 (1998): 1552-1564.
- [25] Youself, Hussein-Abou. "Bagasse pulping by using Caro's acid." *Journal of Korea Technical Association of the Pulp and Paper Industry* 33, no. 5 (2001): 30-36.
- [26] Adnan, Ahmad Azrin, and Wan Yusof Wan Chik. "Bank Selection Determinants From Islamic Perspective: A Preliminary Review." In *Seminar on Islam Entrepreneurship and Consumerism II* organised by Universiti Malaya, vol. 15. 2008.
- [27] Somers, Toni M., and Klara Nelson. "The impact of critical success factors across the stages of enterprise resource planning implementations." In *System Sciences, 2001. Proceedings of the 34th Annual Hawaii International Conference on*, pp. 10-pp. IEEE, 2001.
- [28] Bakre, Owolabi M. "The unethical practices of Accountants and Auditors and the compromising stance of professional bodies in the corporate world: Evidence from corporate Nigeria." In *Accounting Forum*, vol. 31, no. 3, pp. 277-303. Elsevier, 2007.
- [29] Whitcomb, Laura L., Carolyn B. Erdener, and Chen Li. "Business ethical values in China and the US." *Journal of Business Ethics* 17, no. 8 (1998): 839-852.
- [30] Cooper, Robert W., Garry L. Frank, and Robert A. Kemp. "Ethical issues, helps and challenges perceptions of members of The Chartered Institute of Purchasing and Supply." *European Journal of Purchasing & Supply Management* 3, no. 4 (1997): 189-198.

- [31] Adair, Bianca L. "Interest articulation in communist regimes: The new economic mechanism in Hungary, 1962-1980." *East European Quarterly* 37, no. 1 (2003): 101.
- [32] Kohlberg, Lawrence. *The meaning and measurement of moral development*. No. 13. Clark Univ Heinz Werner Inst, 1981.
- [33] Shaub, Michael K., Don W. Finn, and Paul Munter. "The effects of auditors' ethical orientation on commitment and ethical sensitivity." *Behavioral Research in Accounting* 5, no. 1 (1993): 145-169.
- [34] Miesing, Paul, and John F. Preble. "A comparison of five business philosophies." *Journal of Business Ethics* 4, no. 6 (1985): 465-476.
- [35] Larsen, R.J., 2000. Toward a science of mood regulation. *Psychological Inquiry*, 11(3), pp.129-141.