

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**FINANCE AND ACCOUNTING DEPARTMENT**

**THREATS TO PROFESSIONAL ETHICS:  
AMONG SELECTED AUTHORIZED ACCOUNTANTS AND AUDITORS  
IN ETHIOPIA**

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**A THESIS SUBMITTED TO THE COLLEGE OF BUSINESS AND ECONOMICS OF ADDIS ABABA  
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## **Declaration**

I, the undersigned, hereby certify that the research entitled: *Threats to Professional Ethics: Among selected Authorized Accountants and Authorized Auditors in Ethiopia*, submitted by me in partial fulfillment of the requirements of the degree of Masters of Science in Finance and Accounting to Addis Ababa University, College of Business and Economics, Accounting and Finance Department is my own original work and has not been submitted earlier to Addis Ababa University or to any other institution in Ethiopia or elsewhere for the fulfillment of the requirement of any other programme of study. I also declare that all sources of materials used for the thesis have been duly acknowledged.

**Place:** Addis Ababa, Ethiopia

**Date:** 21<sup>st</sup> January 2016

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## **Certification**

This is to certify that Engida Bayou has carried out his research work on the topic “*Threats to Professional Ethics: Among Selected Authorized Accountants and Auditors in Ethiopia*”. This work is original in nature and is suitable for submission for the award of MSC in Accounting and Finance.

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## **Acronyms and Abbreviations**

AABE	Accounting and Auditing Board of Ethiopia
AAPA	American Association of Public Accountants
AFAP	Association of Accounting and Finance Professionals
AICPA	American Institute of Certified Public Accountants
ANAN	Association of National Accountants of Nigeria
ASC	Audit Service Corporation
ASE	Accounting Society of Ethiopia
CPA	Certified Public Accountant
Eafa	Ethiopian Accounting and Finance Association
EPAAA	Ethiopian Professional Association of Accountants and Auditors
ERCA	Ethiopian Revenue and Customs Authority
ICAEW	Institute of Chartered Accountants in England and Wales
ICAN	Institute of Chartered Accountants of Nigeria
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institute
MoFED	Ministry of Finance and Economic Development
OFAG	Office of Federal Auditor General
QAR	Quality Assurance Review
ROSC	Report on Observance of Standards and Codes

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## ***Abstract***

*The objective of the research was to identify the threats that impede adherence to professional ethics among selected Authorized Accountants and Authorized Auditors in Ethiopia. The pillars of ethical values rest on integrity, objectivity, professional competence and due care, confidentiality and professional behavior. Observance of these pillars of ethics was evaluated in light of threats and safeguards. The research approach employed for the study was mixed research augmented with simple statistical analysis. Respondent Authorized Accountants and Authorized Auditors were selected using snowballing technique. The data collected from the subjects of the study was validated by triangulation. Bankers and Tax Auditors were identified as principal users of the financial reports and thus used to validate the data. Key informants interview with persons having close ties with the profession was conducted to enrich the data. The findings indicate that there are lapses in the observance of professional ethics. The lapses in upholding ethical values are traced to intimidation, work environment, legislative environment, integrity, familiarity, professional competence and due care and self-interest. The recently promulgated legal provision for the adoption of IFRS as accounting standard in Ethiopia is a milestone in the traverses of the profession filling the gaps in the legal and professional environment. On the bright side, there are high hopes and expectations from the newly established Accounting and Audit Board of Ethiopia towards regulating and monitoring the profession. The migration to the new reporting and regulatory system requires a concerted effort from the professionals. Rules by themselves are not ends but means towards the desired goal. Principles rather than rules would make a difference towards ethical professionals.*

**Key words:** *professional ethics, threats, to professional ethics, safeguards to professional ethics, Ethiopia*

William Shakespeare (1564 –1616) provided the following speech in his play:

*Iago. Good name in man and woman, dear my lord,  
Is the immediate jewel of their souls,  
Who steals my purse steals trash; 'tis something, nothing;  
'Twas mine, 'tis his, and has been slave to thousands;  
But he that filches from me my good name  
Robs me of that which not enriches him  
And makes me poor indeed.  
(Othello, 3.3. 155–160)*

# CHAPTER ONE

## Introduction

The theme of the paper is threats to professional ethics with emphasis to selected Authorized Accountants and Auditors in the Ethiopian context. This chapter highlights introductory issues pertaining to professional ethics as applied to the accounting profession. On the global scale, the need to protect public interest on the one hand and the decline in public trust caused by massive corporate scandals on the other hand is discussed. Furthermore, statement of the problem, the objectives of the study, the research questions and the significance of the study as well are addressed. The significance of the study part underscores scarcity of previous works on the subject as applied to the Ethiopian setting. Moreover, the potential contribution of the research as a starting point to future researches is considered. The final part of this chapter discusses and enumerates limitations which are set by the scope of the research and externally due to the nature of the research.

## 1.1 Background

The definition of ethics is very broad and there is no universal consensus or universally agreed definition but in a general sense ethics is defined as the systematic study of conduct based on moral principles, reflective choices, and standards of right and wrong conduct (Wheelwright, 1959:66). Ethical behavior from a professional standpoint also involves making choices based on consequences of alternative actions.

Accounting has its own definition of ethics, which is primarily a field of applied ethics, the study of moral values and judgments as they apply to accountancy. The essence of accounting ethics dates back to the early days of accounting. Luca Pacioli, dubbed "Father of Accounting", wrote on accounting ethics in his first book *Summa de arithmetica, geometria, proportioni, et proportionalita*, published in 1494 (McClain, nd:6). Since its first mention in the works of Pacioli, the concept of accounting ethics was expanded through the efforts of government bodies, professional organizations and independent professional institutions.

In 1887, the American Association of Public Accountants (AAPA) was created. By 1905, the AAPA's first ethical codes were formulated to educate its members. In 1907, ethics was a major topic of the conference among its members. As a result of discussions, a list of professional ethics was incorporated into the organization's bylaws. However, because membership to the organization was voluntary, the association could not require individuals to conform to the suggested behaviors (Bansal, 2014:153). Over the course of time, American Institute of Certified Public Accountants (AICPA) developed five divisions of ethical principles that its members should follow: "independence, "integrity and objectivity"; "competence and technical standards"; "responsibilities to clients"; "responsibilities to colleagues"; as well as "other responsibilities and practices".

In spite of improvements, accountants and accounting firms have come under attack recently because of high-profile accounting scandals such as those involved at Enron or WorldCom (Healy-Burress, n.d:58). Accountants have been accused of taking unethical actions. Auditors blamed for turning to other side or turning blind eyes to misrepresented transactions. Hence, the profession fell under serious scrutiny by legislators and regulatory bodies.

The process of accounting professionalization in Ethiopia appears to exhibit distinct patterns during the three epochs when the state followed capitalist-oriented (pre 1974), communist (1974 through to 1991), and then capitalist-oriented (1991 onwards) ideologies (Mihret et al, nd: 4). Alternating government ideologies had their lasting impacts on the profession. The developments in the legal, educational, and commercial climate until the early 1970s appear to have created conducive environment for the enhancement of the accounting profession in the country (Kinfu et al 2009:88).

Kinfu et al (2009:88) argue that the development of accounting appears to have been inhibited during 1974 -1991. However, the formation of the Audit Service Corporation (ASC) to conduct external audit of public enterprises was an important landmark in the history of accounting and auditing in this period.

The free-market system embraced after 1991 has been considered as one of the signals of hope for a better future for the accounting profession. Kinfu (2009:89) posits that the changes has brought the accounting and auditing profession to the forefront as vital component of appropriate economic management. Matching this expectation, the Ethiopian government undertook financial reforms in the areas of financial reporting and internal audit in the public sector (Ibid). As part of its economic policy reforms, the government has been working to improve the financial infrastructure of the country and to encourage private investment via enhanced platform for risk assessment and reduced corporate failure.

Following the shift from the command economy to the market economy, private companies of various forms have mushroomed. Add to this, the opening up of the Ethiopian economy has attracted and is expected to attract more foreign direct investment and joint venture projects. At the center of all these developments, the accounting profession plays a vital role of producing financial reports that are fair reflection of the situation of the reporting entity. To be of relevance and importance to the users, the professionals involved in the preparation and attest function must observe ethical values.

In tune with the policy changes and the dynamics of the investment climate, Office of the Federal Auditor General (OFAG) issued a Code of Ethics for Professional Accountants in January 2004 and a revised one in 2009. While the Code is tailor made for practice in Ethiopia, it is modeled on the Code of Ethics for Professional Accountants issued by IFAC and the International Organization of Supreme Audit Institutions (INTOSAI). Since issuing the Code, OFAG has investigated serious complaints, which resulted in disciplinary measures being taken against two auditors (ROSC 2007:10). The ROSC findings indicate the prevalence of misconducts by professionals. Furthermore, according to Beyene (unpublished 2007:85); there are evidences where authorized auditors' are being influenced in their undertakings.

Corruption, mismanagement of public resources and accounting irregularities are huge challenges for developing countries like Ethiopia. A strong accountancy profession will undoubtedly contribute positively and significantly to the fight against these chronic problems ((Belete J. 2015 Fortune Vol. 15 No. 759).

In a positive and concrete development, the recently issued Financial Reporting Proclamation (Proclamation No. 847/2014) provides for the establishment of a separate legal body known as Accounting and Auditing Board of Ethiopia (AABE). AABE is empowered to overlook the adoption of International Financial Reporting Standard (IFRS) in Ethiopia over the coming five years. On top of this, the office is entrusted with the power which ranges all the way from issuing directives pertaining to the profession and the professionals; drafting code of conduct and licensing to enforcing disciplinary measures.

The development in this regard is a huge step towards integrating Ethiopia to the international frame and the assignment of ownership of the profession that has otherwise been hanging between various offices. It can be considered a culmination of decades of efforts of professionals, academicians and partners. AABE is expected to spearhead the agenda of setting national professional qualification program, the improvement of monitoring the conduct of public accountants, the advancement of ethical culture, and the preparation of quality and timely financial management information.

However, empirical evidences from studies pertaining to corporate scandals have demonstrated that the promulgation of professional code of conduct or the establishment of separate authoritative body by itself does not ensure the elimination of misconducts. There are factors related to the individual professional, the work environment and the tone at the top that interfere with adherence to professional codes of ethics.

Most studies pertaining to accounting ethics are carried-out with reference to developed countries and emerging economies in Asia. Comparatively fewer numbers of studies have focused on Africa in general and Sub-Saharan Africa in particular. The search for similar studies pertaining to Ethiopia is hard to come by. This study, therefore, attempts to fill this gap through a study on ethical threats faced by selected Authorized Accountants and Auditors. The research utilizes analytical framework from existing literature and empirical evidence from other countries' context, discusses ethical threats and draws inferences regarding challenges to professional code of ethics.

## **1.2 Statement of the Problem**

The corporate debacles of the 1990 and early 2000's have rocked the very foundation of the public perception of accounting as an ethical profession that upholds the public interest. The corporate failures have spanned all the way from Asia, through Europe to the USA. These failures have been a subject of concern by the public, politicians and the professionals alike.

There is a growing concern as to the observance of professional ethics in the accounting profession in the context of Ethiopia. These concerns are raised and discussed in professional circles and deliberations of professional associations. Banks do not rely on financial statements for lending. The lending culture is largely based on collateral security. If anything, financial statements play a small secondary role. Tax authorities and businesses do not easily agree on the financial statements for tax purposes. Business people indicated that tax authorities do not trust their financial statements (ROSC 2007:16). Add to this, a simmering complaint prevails by users of financial statements as to the quality and reliability of financial reports.

In light of these facts, the Ethiopian context is unique (at this juncture) – the profession is undergoing through a fundamental change – adoption of IFRS and the establishment AABE. Therefore, a study focused to the Ethiopian contexts becomes more relevant. Hence, a study specific to the threats of professional ethics of Authorized Accountants and Auditors is expected to provide an insight into the matter. This research, therefore, tries to identify threats that influence ethical decision making and adherence to professional ethics taking Authorized Accountants and Auditors, as a unit of the study.

This study is, therefore, an effort to address the issue of professional ethics taking into account scarcity of previous studies pertaining to ethical threats encountered by Authorized Accountants and Authorized Auditors in Ethiopia. Moreover, the subject becomes more relevant vis-à-vis the fundamental changes taking place with regard to the accounting profession in Ethiopia, namely, the promulgation of the Financial Reporting Proclamation (Proclamation No. 847/2014) and the establishment of the Accounting and Auditing Board of Ethiopia (AABE).

## **1.3 Objective of the Study**

This research has both general and specific objectives.

### **1.3.1 General Objective**

The general objective of the study is to explore the extent to which professional ethics is influenced by threats with respect to Authorized Accountants and Auditors.

### **1.3.2 Specific Objectives**

The specific objectives of the study focus on the threat factors presumed to have influence on adherence to professional conduct vis-à-vis accounting ethics and tries to

- Assess the extent to which authorized accountants and auditors encounter threats;
- Determine the significance of the threats versus adherence to ethical values;
- Analyze the extent to which theoretical factors and empirical findings pertain to the Ethiopian context;
- Identify the implication of the legislative environment in the exercise of professional ethics;

## **1.4 Research Questions**

In order to address the issues raised under the specific objectives part of the study, the following basic research question will be used as guiding frames:

- What are the significant threat factors that affect adherence to professional ethics?
- How is the “client – professional” relationship characterized?
- Does the existing legislative environment have a bearing on profession ethics?
- Does the work environment create enabling environment? This pertains to organizational structure and management culture of clients of Authorized Accountants and Auditors.
- What is the relationship between theoretical arguments of threats to professional ethics, empirical findings elsewhere and the Ethiopian context?

## **1.5 Significance of the Study**

The overall role of the accounting and audit profession to the wellbeing and smooth functioning of the Ethiopian economy is significant. The benefits from the sector are translated in terms of enhanced public trust on financial information, financial transparency, decision input, investor confidence, promotion of assurance, the functioning of the emerging market economy, possible establishment of capital market (especially secondary capital market) and employment creation both direct and indirect. These benefits warrant due recognition to the profession.

Furthermore, the global consensus among policy makers, legislators and think-tanks is to mainstream accounting ethics and code of conduct in the fight against money laundering, accounting scandal, corporate greed and borderline creative accounting. Such a belief in the contribution of the profession makes this study timely and worthwhile.

The study tries to highlight the threats to professional ethics as encountered by Authorized Accountants and Authorized Auditors in Ethiopia. It would be useful for practitioners and the academia as a source of relevant information and to stimulate further studies on the subject. The study aspires to provide a timely input to the newly established body entrusted with the oversight of the accounting and auditing profession in the country by highlighting threats to upholding professional ethics.

The research questions and the findings thereto will be relevant to identify variables influencing adherence to professional ethics, transferability of theoretical and empirical findings around the globe to the Ethiopian context.

## **1.6 Scope and Limitation**

The general aim of the study is to identify the threats encountered by Authorized Accountants and Authorized Auditors in Ethiopia with respect to professional ethics. The body of accountants and auditors in Ethiopia extends well beyond the ones addressed in this study. It encompasses those in the private sector, public organizations, government offices and institutions, the academia, non-governmental organizations and so on.

Given the limited number of prior research with respect to professional ethics of accountants and auditors in Ethiopia, the study builds on the body of knowledge and studies conducted in the context of other countries.

### **Limitation of the Study**

- The subject of ethics as a subject of discussion is sensitive. Initial effort to conduct the study on random sample basis failed due to high level of decline. Hence, snowball technique (which is non probability sampling) was used to administer questionnaire based data collection.
- Authorized Accountants and Auditors operating in regional towns are not included in the study.

### **Delimitation of the Study**

- The study is confined to Authorized Accountants and Auditors, hence does not include professionals employed in academic institutions, organizations, companies or the like.\

## **1.7 Organization of the Paper**

This study is organized into five chapters. The first chapter dwells on general introduction of the paper. Chapter two presents the literature review regarding professional ethics and the practices thereto and therefore will set out the theoretical and empirical foundations for the research. The third chapter outlines the research methodology. The research results are presented in chapter four. The last chapter draws conclusions and recommendations.

# CHAPTER TWO

## LITERATURE REVIEW

It has been suggested that the worship of money has become our secular religion and that we live in an age where money talks and people listen (Lapham, 1988 cited in Yen 2010:24).

### **Introduction**

This chapter presents a review of related literature on professional ethics as applied to the accounting and auditing profession. It consists of general overview of professional ethics, code of conduct, how professional ethics evolved through the ages and the threats thereto. The numerous efforts made by pioneers of the profession to promote public interest through formulation of code of conduct and professional ethics are also highlighted. The chapter synthesizes existing empirical research in the fields of professional ethics and sums up the review and identifies the gap in the existing literature. Moreover, the literature part highlights the different perspectives surrounding the concept of ethics. Add to this, the situation of professional ethics as applied to the accounting profession in Ethiopia is also discussed.

### **2.1 Definition of Ethics**

The word 'Ethics' is derived from the Ancient Greek word ethikos; means customs and habits. It is a major branch of philosophy which is the study of values and customs of a person or group and covers the analysis and employment of concepts such as right and wrong, good and evil and do's and don'ts (Ghazala 2007:51).

The concept of ethics was used for the first time by Aristotle, as the name of a philosophical discipline. The definition of ethics is very broad and there is no universal consensus, but in a general sense ethics is defined as the systematic study of conduct based on moral principles,

reflective choices, and standards of right and wrong conduct (Wheelwright, 1959:66). Ethical behavior from a professional standpoint also involves making choices based on consequences of alternative actions. Thus, general theories of ethics can be used to explain and understand the professional conduct that is expected of accountants.

Ethics is a concept which does not lend itself to a broad and generally accepted definition, but there exist a consensus about the concept. Arguably, it relates to what is good or not good, what is morally right or wrong, what is acceptable in a given environment and what is not (Adewunmi, 1998:6). Ethics is defined as “a theoretical treatment of moral phenomena that falls into three classification: moral judgments, moral emotion and moral volition” (Otalor 2013:75)

The term “ethics” is defined as the science of study of morals, rules or principles which guides the behavior and decision of a certain person, community or group, etc. Ethics, therefore, is concerned with norms, ground rules, principles, values or conduct of behaviour and practices exhibited by a group of people, community or profession. It can also be regarded as acceptable standards of behavior or unwritten regulations or moral principles that guide an individual, an organization, a discipline or society in their dealings with one another. A profession is formed and founded on the following premises: a generally accepted body of knowledge, a widely recognized standard of attainment and an enforceable code of ethic (Otalor 2013:76)

Ethics refers to a system or code of conduct based on moral duties, values and obligations that indicates how we should behave within a constituted body or society. Ethical behaviour refers to conducts in organizations considered to be fair, just, above and beyond constitutional law and relevant regulations (Steiner, 1972 cited in Otalor, 2013:75). Ethics (also known as moral philosophy) can be defined as “a branch of philosophy that addresses questions about morality - that is, concepts such as good and evil, right and wrong, virtue and vice, justice, etc.” (McClain n.d.:1).

The International Federation of Accountants (IFAC, 2013) defined professional ethic as the professional behavior and characteristics that identifies professional accountants as members of a profession. In the light of the above definitions, we can safely define professional ethics as a set of

principles or rules which stipulates in broad terms the responsibilities of a profession to clients, colleagues and the society in general.

The multitude definition of ethics converge around one central theme i.e. ethics is the process of making reflective choices based on what is accepted to be good. Hence, despite the differences in emphasis, ethics implies adherence to act good while taking into account the interest of others.

## **2.2 Evolution of Professional Ethics**

The concept of ethics was used for the first time by the ancient Greek philosopher Aristotle, as the name of a philosophical discipline. The word 'Ethics' is derived from the Ancient Greek word Ethikos which means customs and habits (Ghazala 2007:52).

A professional code of conduct explicitly states the expectations of behavior and character for the members of the profession. The rules of conduct for the accounting profession can be traced back to the English Joint Stock Companies Act of 1844 as amended in 1856, which states that “The accounts of the company shall be examined and the correctness of the Balance Sheet ascertained by one or more auditors to be elected by the Company in General Meeting” (O’Riordan et al 1982:31).

Later in 1880, the English Institute of Chartered Accountants was inaugurated by Royal Charter from Queen Victoria. Its charter laid down certain “fundamental rules”. These rules were the basis for the rules set forth by American accountants (ibid).

In 1906 the constitution and bylaws of the American Association of Public Accountants (AAPA), the predecessor to the American Institute of Certified Public Accountants, contained no separate code of ethics. Article VII of the bylaws, under the heading, “Miscellaneous,” contained the following two rules (Carey, 1969:44).

1. No member shall allow any person not being either a member of the Association or in partnership with himself as a public accountant to practice in his name as a public accountant.

2. No member shall directly or indirectly pay to any attorney, broker or agent any portion of his professional charges, nor accept any portion of the fees of any attorney, broker, or agent who may be concerned in any professional work in which such member is engaged.

However, professional ethics was one of the major topics of the 1907 annual meeting. At this time, the bylaws were amended to introduce an article headed “Professional Ethics”. Three rules were added to the existing two rules in the bylaws (Carey, 1969, *ibid*).

3. No member shall engage in any business or occupation conjointly with that of a public accountant, which in the opinion of the Board of Trustees is incompatible or inconsistent therewith.
4. No member shall certify to exhibits, statements, schedules, or other form of accountancy work, the preparation of which was not carried on entirely under the supervision of himself, a member of his firm, one of his staff, a member of this Association or of similar Association of good standing in foreign countries.
5. No member shall in his business advertisements use any initials as an affix to his name that is not either authorized by statutory enactment of this country or by the well-known associations established for a similar purpose in the British Empire, nor shall he affiliate or substantially recognize any society that is designated or in any way sets itself out to be a so-called certified public accountant society, without the state in which such society is organized having the requisite statutory enactment in full force and effect.

The AAPA was virtually powerless to enforce these rules. For the most part, discipline of Association members had to be enforced by the state societies which were also relatively weak.

In 1916, the Institute of Certified Public Accountants was formed. They took no time in addressing the issue of ethics. In April, 1917 at the first regular meeting of the Council after the reorganization, eight rules of conduct were approved by the committee, covering the following topics (Carey, 1969, *ibid*).

1. Use of the title “Members of the American Institute of Accountants”

2. Certification of statements containing essential misstatements of fact or omissions
3. Practice by others in the name of a member
4. Commissions or brokerages to or from the laity
5. Occupations incompatible with the practice of public accounting
6. Certification of statements not prepared under satisfactory supervision
7. Notice to the Institute of participation in efforts to secure legislation
8. Solicitation of clients of other members

### **The Contemporary Situation**

The Committee commissioned, by AICPA, to review the relevance and effectiveness of professional standards recommended a change in the structure of the Institute's Code of Professional Ethics. The revised Code adopted on January 12, 1988 and amended on January 14, 1992 consists of two basic sections:

1. Standards of Professional Conduct, which state the ethical responsibilities of AICPA members.
2. Rules of Performance and Behavior, which consist the rules of conduct (AICPA, 1986).

One major difference between the previous code and the revised code was that the revised code applied to all AICPA members and not just to those in public accounting.

The revised code provided a mandatory Quality Assurance Review program (QAR) to monitor practice. The purpose of the QAR committee was to uncover deviations from technical or ethical standards before they became the subject of complaints or news stories. The QAR program dealt with firms in public practice. Most surprising, members of the AICPA in public practice would be required to work only in firms that participate in the QAR program. The AICPA administered the program in the states that did not set up a QAR program. The special committee also recommended a mandatory continuing professional education program for all members, exempting those retired or not actively engaging in the profession (Anderson, 1985, p: 98).

In spite of these improvements, accountants and accounting firms have come under attack (recently) because of high-profile accounting scandals such as those involved at Enron or

WorldCom. Recent audit failures have led some to conclude that there is unethical conduct within the accounting profession (Healy-Burress, nd: 58).

The Sarbanes-Oxley Act was signed into law in July of 2002. One of several requirements of this Act is that publicly traded firms disclose whether they have a Code of Ethics or Code of Conduct for their senior executives. Although many firms already have a code of ethics, accountants may be asked to review and revise the codes (Myers, 2003:29)

When one's moral compass has gone askew, no legislation is powerful enough to prevent misdeeds. In other words, a strengthening of regulations is insufficient to prevent corporate transgressions. The ethical code of individuals represents the last line of defense (Kung et al nd: 2).

Based on a coherent set of principles, norms, and conventions, accounting provides "true and fair view", a performance and legitimacy criterion. Without a doubt, accounting based on real, sincere, complete, and neutral information expresses, to a good extent, the *degree of morality* of the actors involved in the economic activity: investors, the state, the employees, the unions, the manager, the potential investors, etc. (Horomnea E., 2011:4).

Accounting as a profession has strived to make professional ethics its main agenda since the days of its founding father Luca Pacioli all the way through the 1880's of the English Institute of Chartered Accounts and to ACPA. Despite the concern and efforts to cope-up-with issues that prop-up along with changes in the economic and company's landscape, the subject of ethics appears to be elusive as evidenced by mega scale accounting frauds that wipe out savings, investments and pensions of thousands of citizens across national borders.

## **2.3 Perspectives in Ethics**

Despite the general consensus that ethics pertains to reflective choice among alternatives with due consideration for others' right and self, there are differences in the rationale of the choice, justification and approaches to ethics. The following paragraphs summarize the various perspectives.

### **2.3.1 Deontological and Consequentialist**

Deontological stresses the rights that people have, and the necessity for people to respect other people's rights. Doing good means respecting these rights and living by ethical rules whatever the consequences. The latter perceives of the good as that which maximizes the consequences for society. An example of a consequentialist ethics is utilitarianism, which holds that the well being for society as a whole needs to be maximized, even if that involves violating the rights of some. Indeed, the concept of right sits uncomfortably within a consequentialist ethics (Dolfsma, 2006:210).

The fundamental principles of ethical code are based on the theory of deontology which is rule oriented and concerns about the action rather than the consequences (Alabede, 2012:120). Professional accountants shall strictly follow and adhere to professional codes of ethics and the underlying principles regardless. Such strict observance of the codes and principles allow for consistency in practice and would help avoid potential failures and consequent professional liability. The teleological view endorses a decision that may benefit the majority of the stakeholders while the minority could be at the losing end.

### **2.3.2 Absolutism and Relativism**

Ethical absolutism refers to the assumption that ethical and moral principles are inherent within all individuals and can be applied universally. In contrast, ethical relativism is a theory that ethical judgments are relative to associated context, time, and situational roles. While these two notions do not necessarily dictate moral behavior, they provide greater understanding into the motivating factors and justification behind the ethical choices (Cabrera-Frias, 2012:12).

Rules and principles are to guide actions. Unless the individual professional commits to such standards, there will always remain loopholes to exploit and maneuver. It would be difficult, if not impossible, to address all situations and circumstances. Hence, ethical absolutism of the professional would be a key ingredient to uphold the principles and observe the rules. Absolutism refers to personal traits ingrained in the person through upbringing and early formative years.

### **2.3.3 The Guardian and Commercial Perspective**

“Guardians” such as judges, the police or military, establish (public goods) and protect a secure framework within which commercial traders, manufacturers and service industries can prosper. While “Guardians” may prize respect for precedents, organizational loyalty and steadfast determination, those in “commerce” emphasize inventiveness, thrift and openness to strangers. Auditors acting as “Guardians” are required to deliver a formal quasi-judicial opinion while simultaneously seeking to sustain or create new relationships with commercial clients through knowledgeable familiarity with the dynamics of their business. Auditors, as with accountants in many roles, must also negotiate over fees, timetables, wordings or reports and related matters in a manner that would, rightly, be an anathema to judges (Molyneaux, 2008:19).

Although the auditor stands midway between the guardian and commercial continuum, it is essential that the auditor leans to the guardian aspect as stakeholders rely on the professional opinion to base their decision. These decisions may have detrimental effects on the interests of users. The commercial aspect can still be satisfied through higher respect generated from due professional service.

In a similar vein, the public accountant is expected to carry-out duties vested upon its shoulders with due regard to accounting principles, policies and legal provisions. Furthermore, consistency in application of principles and adequate disclosures complement usefulness of financial reports to various stakeholders.

### **2.3.4 Principle-based and Rule-based**

Pincus (2000:253) notes that rule-based accounting systems can lead to ethical problems (1) when ‘anything goes’ if not expressly prohibited, or (2) when rules meant to serve as guides to right behavior “lead accountants down the path of least resistance”. The rule-based and legalistic approach to financial reporting and auditing has also been described as the root cause of the frauds committed by Enron, Arthur Andersen, and WorldCom (Satava et al 2006:278). The efforts of the AICPA to amend its code have been based upon a belief that the code “contained too many

technicalities providing opportunities for finding loopholes” (Herron et al, 2003::2). They cite the focus on technical and rule-based aspects of auditing to be one of the major deficiencies of the accounting profession and call for major revisions in the teaching of accounting and auditing to make it less rule-based (Satava et al 2006:277) while principle based ethical considerations allow the professional to take charge of the situation and decide accordingly.

The rule based approach frames the professional around a checklist of issues prohibited / forbidden whereby the independence is restricted to the “do” and “don’t” of the task. It is also said that rules engender deception while principles encourage compliance. Add to this, a rule book can’t address all the situations and circumstances that may arise in the course of engagement. Hence, the principle based approach permits room for the individual professional to make evaluation of the issue and resolve the matter with due attention to the ethical dimension. Furthermore, it should be emphasized that the principles are complemented with rules that may serve as major yardsticks.

### **2.3.5 Consequences, Motives and Right Action**

Helliar et al (2004:15) posits that approaches to ethical decisions can be viewed from consequences, motives and right actions perspectives.

- **The consequences** of an action are used to judge if the action was right or wrong. These consequences are often judged by the utility generated from the action – hence consequentialism is often characterized by utilitarianism.

A professional judgment shall stick to fundamental principles and rules of conduct. If consequences become the basis of professional service, principles and rules of conduct would give way to subjective judgments that may benefit the larger segment of stakeholder while affecting negatively the others.

- **The motives** of the person undertaking an action are the basis for evaluating the action. A good motivation with a bad outcome could, therefore, be ethically sound although thought would have to be given to the degree of certainty that the desired, or expected, outcome would naturally arise from that action.

The motive perspective which focuses on the underlying intention would not be appropriate to the accounting and audit profession. The professional judgment which would harm the interests of stakeholders can't be acceptable as the public interest is not served. It will rather be difficult to justify good intentions with dire consequences on the field of accounting and auditing.

- **Right action (Deontological)** an action in itself is right or wrong.

Deontological perspective, as discussed in the previous paragraphs, is appropriate to the accounting and audit profession as it emphasizes the underlying principles and rules of conduct.

### 2.3.6 Utilitarian, Justice and Rights

According to Chiang (2014:486) another aspect of understanding ethical theories related to decision-making include utilitarian theory, the theory of justice, and rights theory.

- **Utilitarian theory** considers the interests of all parties affected by a decision and chooses the option that benefits the greatest number of people. The utilitarian theory recognizes that trade-offs may be involved, and thus a cost-benefit analysis must be considered in reaching a decision.

The utilitarian theory is based on the trade-off between cost and benefit of the decision. The basic premise of the accounting profession is public trust. The trust should hold true for all parties that may be affected by the decision which is based on the information released by the professional. As a result, the utilitarian theory is not compatible with the accounting profession.

- In comparison, **the theory of justice** emphasizes the need to select an option that creates fair benefits to all parties affected by a decision as opposed to most parties.

The justice theory proposes fairness to all stakeholders. This theory corresponds to the basics of accounting as it promotes impartiality in the ethical decision making process and the consequence thereto.

- The third ethical theory that is often included as part of a framework for analyzing ethical dilemmas is the **theory of rights**. Under this theory, the rights of all parties affected by an ethical situation are considered, and an alternative that does not violate anyone's legitimate rights should be selected.

The right theory recommends the upholding of the interests of all stakeholders in the discharge of professional duty. Violation of stakeholders interest (right) is not acceptable under this approach, which in fact is the professed objective of accounting.

### **2.3.7 Economic Efficiency Ethical Model**

This model consists of Pareto efficiency and information efficiency concepts. The Pareto efficiency pertains to the best use of resources so that no other use can improve one person's situation without harming the other. The Information efficiency refers to the condition whereby all participants or investors hold information in common so that price reflects that information (Satava et al 2006:278).

Auditors stand at a critical juncture which requires them to balance a delicate set of potential ethical dilemmas: how to serve a client best without violating their duty to the public.

A deontological view of ethics is supported by and is consistent with the AICPA Code of Professional Conduct because of its emphasis on the obligation or duty of CPAs to serve the public interest. A deontological view of ethics is characteristic of professional judgment rather than personal judgment because it emphasizes an individual's duty or obligation to comply with the norms and standards of the profession (Sullivan, 2004:5)

The professional ethical principles and accompanying code of conduct are derived with a view to uphold public interest. However, these principles have also provisions for protecting the professional by identifying threats and proposing safeguards to mitigate the threats. The deontological view which dictates adherence to the rule finds its symmetry in accounting which obliges members to strictly adhere to professional ethics and code of conduct.

## 2.4 Pillars of Ethics in Accounting

Generally speaking, a profession is formed on the basis of (1) a generally accepted body of knowledge, (2) a widely recognized standard of attainment, and (3) an enforceable code of ethics. A code of ethics is a crucial element in forming a profession (Satava et al 2006:277).

One of the unique features of most recognized trades and vocations including the highly regulated accounting profession is the existence of code of ethics which are the hallmarks of global best practices. A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest a professional accountant should observe and comply with the ethical requirements of the professional code.

It is further suggested that professions should be allowed to regulate themselves on the basis of two arguments. First, members of the profession have specialized knowledge with social utility; such knowledge is not easily understood or used by non-professionals. Second, members of the profession set higher standards for themselves than society generally requires of non-professionals (Dinah, et al, nd: 177).

International Federation of Accountants (IFAC, 2013) code of ethics for professional accountants has prescribed five fundamental principles to be adhered to by accountants. These are as follows:

- a. **Integrity:** A professional accountant should be straightforward and honest in all professional and business relationships.
- b. **Objectivity:** A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- c. **Professional Competence and Due Care:** A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

- d. **Confidentiality:** A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.
- e. **Professional Behaviour:** A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession (IESBA 2013:12; IFAC, Otalor et al 2013:76; ICPA, 2012:5).

These five principles are at the core of the profession. The principles need to be respected always and at all times. Wherever threats to adherence surface, it should be determined, safeguards put in place otherwise the professional should disengage from the service. Josephson Institute of Ethics (BÂLC et al, 2012:72) defines six fundamental ethical values assigned to an ethical behavior: trustworthiness, respect, responsibility, fairness, empathy and citizenship.

In an effort to avail comprehensive guidance and avoid massive corporate failures, IESBA in its handbook (2013:15) identified threats and put forward safeguards for the professional to follow:

## 2.5 Threats to Professional Ethics

Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

- a. **Self-interest threat** – the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior;
- b. **Self-review threat** – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by the professional accountant,

or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service;

- c. **Advocacy threat** – the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
- d. **Familiarity threat** – the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- e. **Intimidation threat** – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.

## 2.6 Safeguards to Threats

Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:

- a. Safeguards created by the profession, legislation or regulation include educational, training and experience requirements for entry into the profession; continuing professional development requirements; corporate governance regulations; professional standards; professional or regulatory monitoring and disciplinary procedures and external review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.
- b. Safeguards in the work environment.

## 2.7 Importance of Ethics in Accounting

Building a conceptual accounting frame is related to the ethical grounds of accounting. Ethics in accounting is the search for a true and fair view, although it does not exist in an absolute sense. Ethics is placed at the border between reality and truth. Accounting interprets reality according to what is supposed to be the truth. For this reason, the inexistence of ethical and moral principles in

accounting and audit would create the premises for “legal fraud”, which is not necessarily related to creativity, but to the weakness of an accounting system lacking ethical norms and principles, thus diminishing the quality of the financial information (Horomnea et al 2012:10).

That is the reason why the users of financial accounting information and implicitly of accounting services trust their quality because practice has proven in time that the provision of these services is made according to a moral frame, based on three fundamental desiderata: Ethics, Quality of service and Continuous professional development. Exception to this are isolated events. The main objective of professional bodies is to eliminate such cases, and for this reason they create deontological norms, encourage continuous development, and supervise the members of the accounting profession to uphold the principles (Horomnea et al 2012:9).

In order to prevent new financial scandals, accounting professionals, especially auditors and financial consultants, need to have the moral duty not only to adopt an ethical behavior, but also to insure that those they advise are aware of their own ethical responsibilities, as well as of the consequences of the decisions made.

#### Importance of professional ethics

1. Protection of clients and the professionals alike.
2. Clarifies the ideals and responsibilities of the profession.
3. Enhancement of the profile of the profession.
4. Motivates and inspires practitioners
5. It provides guidelines on acceptable conduct.
6. It raises the level of awareness and consciousness on issues.
7. Improves quality and consistency.

The need for ethics arose from the claims of the accounting profession and the role the profession has assumed over time. These include:

1. It is the responsibility of Professional accountants to maintain the reputation of the accounting profession by consistently considering the public interest in any given assignment. Personal interest must not be allowed to override these duties (ICAEW, 2009 and 2010).

2. Accountants deal with a range of issues on behalf of clients. They often have access to confidential and sensitive information. Auditors claim to give an independent view (ICAEW, 2009 and 2010).
3. The professional sees himself or herself as responsible to the customer; the mission is to solve the problem of the customer, to create the value that the customer requires. If that value is not created, if problem is not solved, the professional has not done his or her job. It is only by producing the result that customer requires- by performing the entire process that yields that result-that the professional discharges his or her responsibility (Kabir, 2009 cited in Otolor, 2013:76).
4. Technically, the professional accountants should carry out professional services in accordance with the relevant technical and professional standards. The professional accountants have a duty to carry out with care and skill, the instructions of the client or employer in so far as they are compatible with the requirements of integrity, objectivity and, in the case of professional accountants in public practice, independence (Kabir, 2009, *ibid*).

In the opinion of Robert H. Montgomery, one of the founders of the Lybrand, Ross Bros. & Montgomery accounting firm, known today as Pricewaterhouse Coopers, “accountants and accounting exist in order to provide public services; the difference between accounting as a simple job and accounting as a social asset is given by the fact that the latter is responsible for meeting standards beneficial for the public interest, beyond the compensation paid by the customers” (Horomnea et al 2012:6).

The true and fair view, through its very name, makes us think of the idea of truth and honesty, being tightly connected to the performance criterion of accounting, based on ethical and moral concepts: truth, sincerity, regularity, reality, neutrality, continuity, permanence, etc. Inter-disciplinarity is obvious and even absolutely necessary at the level of the accounting body, a fact proven by the attempts to harmonize, normalize, and make the accounting practices and principles converge at a world level.

Ethics in the accounting profession plays an indispensable role if the profession is to sustain the respect and credibility it enjoyed in the past. However, studies indicate that more has to be done at higher education institutions to mold the attitudes of the aspiring professionals.

## **2.8 Creative Accounting and Earning Management**

The contentious issues that have created controversies and suspicion around the accounting profession are “creative accounting” and “earning management”. These two concepts pertain to manipulation of figures and financial statements while still staying within the boundaries of the rules but exploiting loopholes for interpretations and judgments.

The exercises are short-term in nature. They do not ensure long-term sustainable value creation to the firm. Environmental factors like organizational culture, management style, economic conditions, incentives attached to results, etc. attribute to the rampant application of the legal but unethical practices.

Prior et al (2008:161) gives three important motives for earnings management. First managers’ motive is to influence short term prices, particularly around the time of certain types of corporate events, such as stock issues. Second motive, is that certain contracts create an incentive for managers to engage in earnings management with the purpose of boosting bonus awards. Thirdly, there are also regulatory motivations for earnings management. Managers of regulated sectors suffer acute pressure from antitrust authorities regarding price controls and market share. Such pressure stimulates earnings management practices as a stratagem to appear less profitable.

Lev (2003:35) gives two additional motives for managers to engage in earnings management. One motive is to weather out the storm that is to continue operations with adequate funding and customer/supplier support until better times come. Second motive to engage in earnings management is to satisfy contractual arrangements (debt covenants).

Creative accounting poses a formidable challenge for the accounting profession. The problem is an international one, accounting policies choice being a particular problem for the Anglo-American

tradition and while handling transactions is a particular problem for the continental European tradition. There is a variety of managers' motivation for creative accounting practices. Accountants who accept the ethical challenge of creative accounting must be aware of the abuse in the choice of accounting practices and handling transactions (UŞURELU et al, 2010:350).

Accountants can use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business. Amat et al, (nd: 5) summarizes how creative accounting is perceived across the spectrum using the following comments:

Griffiths (1986) writing from the perspective of a business journalist, observes:

"Every company in the country is fiddling its profits. Every set of published accounts is based on books which have been gently cooked or completely roasted. The figures which are fed twice a year to the investing public have all been changed in order to protect the guilty. It is the biggest con trick since the Trojan horse ... In fact this deception is all in perfectly good taste. It is totally legitimate. It is creative accounting". (p1)

Jameson (1988) writing from the perspective of the accountant, argues:

"The accounting process consists of dealing with many matters of judgment and of resolving conflicts between competing approaches to the presentation of the results of financial events and transactions (p7) ... this flexibility provides opportunities for manipulation, deceit and misrepresentation. These activities - practiced by the less scrupulous elements of the accounting profession – have come to be known as 'creative accounting' (p8).

Smith (1992) reports on his experience as an investment analyst:

"We felt that much of the apparent growth in profiles which had occurred in the 1980's was the result of accounting sleight of hand rather than genuine economic growth, and we set out to expose the main techniques involved, and to give live examples of companies using those techniques". (p4)

Naser (1993) presenting an academic's view, offers a definition:

"Creative accounting is the transformation of financial accounting figures from what they actually are to what preparers desire by taking advantage of the existing rules and/or ignoring some or all of them" (p. 2)

Internal management reporting on either a weekly or monthly basis often requires the manager to exercise judgment. Earnings management occurs when managers use judgment in financial reporting and structuring transactions to alter financial report to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Rahman et al 2013:24). The reasons for Earnings management are diverse and range from the intention to satisfy analysts' expectations to incentives to realize bonuses or to maintain a competitive position within the financial market (Rahman et al 2013:29). Arnott (2003, *ibid*) even stresses that if investors cannot trust the numbers, the investment world may well price equities to offer not merely a risk premium but also a credibility premium. Earnings management and manipulation is the greatest threats to ethics in accounting.

Firstly, earnings management is using judgment in reporting financial results and in structuring transactions to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Kaplan,2001, *ibid*). Secondly, Elias (2002, *ibid*) uses a definition from a former SEC chairman which states that earnings management is accounting hocus-pocus where flexibility in financial reporting is exploited by managers who are trying to meet earnings expectations. Thirdly, Fischer and Rosenzweig (1995), use a more case specific definitions of earnings management as actions by division managers which serve to increase or decrease current reported earnings of a divisions without a corresponding increase or decrease in the long-term economic profitability of that division (*Ibid*)

## **2.9 Empirical Evidences of Global Ethical Failures**

Clarke et al (2003:3), writes: "corporate accounting does not do violence to the truth occasionally and trivially, but comprehensively, systematically, and universally, annually and perennially". Proof is the never-ending scandals. Accounting fraud was derived from negative behaviour related

to the following five factors: corporate transparency, corporate values and behaviour, money culture, vices of a capitalistic society and legalistic culture (Yen, 2010:21).

Beyond the sphere of public accounting, the accounting profession as a whole was once considered the bearer of the highest standards of integrity among the professional services' fields. The regard that this profession enjoyed, however, deteriorated in the wake of a succession of high profile scandals, in the first years of the twenty-first century (Cabrera-Frias, 2012:2)

According to Koestenbaum et al (2005:13), "business leaders are products of business schools which often teach that money always comes before ethics. Sullivan (2004:1) argues that the basis upon which the accounting profession was founded and continues to exist is public trust, which is the degree to which the public has confidence in the services provided by the accounting profession. However, public trust in the services provided by professional accountants has declined in recent years due to occurrences of unethical behavior in the profession.

Organizations of all types and sizes are subject to fraud. On a number of occasions over the past few decades, major public companies have experienced financial reporting fraud, resulting in turmoil in the capital markets, a loss of shareholder value, and, in some cases, the bankruptcy of the company itself (Bhasin, 2013:26). Ethics is a very important pillar of leadership and if it is applied properly in all the governance structures, it can yield results leading to good governance that promotes responsibility, transparency and accountability (Székely et al, 2005, *ibid*: 661).

The reasons for business's ethical failures are many, but perhaps the primary one is that corporate culture has claimed the tacit right to capitalize on almost anything that the market will bear, no matter how harmful the product or process turns out to be. So long as the letter of the law allows it, business seems free to do it. And if the law forbids it, a corporate culture of gamesmanship encourages businesspeople to find loopholes large enough to do it anyway. Friedland J (2009 cited in Fourie, 2011:9).

Schonsheck (2009:49) states "No company has a mission statement that claims, "We promote dishonesty and the employees who increase profits by practicing it" or "Ruthless, unbridled

ambition, and deception are rewarded here.” But don’t senior executives sometimes act as if those were their mission statements?” He states that the only way to judge a corporate culture is to note which employees and which actions get rewarded (ibid).

Unfortunately, evidence from the recent past suggests that far too many accountants, auditors, and executives have misrepresented financial information, participated in fraudulent financial deceptions, and hidden behind loopholes in the law. Accounting rules require implementation by managers and review by auditors seeking to disclose the economics of a transaction. Managers and auditors who are no longer acting in the interest of shareholders can always circumvent both bright-line rules and principles-based rules (Imhoff, 2003:126).

In an article published in 2007 (Jackling et al 2007:937), the *Managerial Auditing Journal* determined a top of nine factors that contributed to the ethical failures of the accountants, based on a survey made on 66 members of the International Federation of Accountants. These factors include: personal interest, failure caused by the impossibility to preserve independence and objectivity, inappropriate professional judgment, non-application of ethical principles, inability to stand up to threats, lack of competence, lack of organizational support, as well as lack of support from the professional association.

The main factor remains personal interest, relevant through the accountant’s acting according to their own interest, which implicitly leads to the occurrence and development of the conflict of interests. Since the professional accountants are increasingly facing complex challenges in both business and professional environments as a result of the events of the last decade, pressures for more ethical behavior are growing in the business environment.

“The huge and embarrassing corporate failures and high profile frauds in the last two decades has called to question the integrity of the accounting profession both within and from outside the profession” (Otalor et al, 2013:75).

This is true because the accounting profession serves the public interest; the professional accountants need to understand what is expected of them in order to respond effectively in the

future. A case in point, during the financial scandals of the early 2000s, investors and creditors lost most of their investment which range from millions to billions of dollars.

The huge and embarrassing corporate failures and high profile frauds in the last two decades raised questions at to the integrity of the accounting profession both within and from outside the profession, leading to increased demands for ethics within the auditing profession.

As a result, the U.S. Congress passed the Sarbanes-Oxley Act of 2002, popularly known as SARBOX. The purpose of this law is to restore public confidence and trust in the financial reporting of public companies. The Sarbanes-Oxley Act (SARBOX or SOX) was a response to public outrage. Lawmakers implemented new checks and balances in an attempt to prevent future controversy. It also created a new regulatory agency, the Public Accounting Oversight Board, to oversee the work of accountants, raising the regulatory bar as well as accountability for the accounting profession. Critics of the act were concerned by increased compliance costs and related expenses, the law's deterrence of innovation and risk taking, and the distraction it would cause CEOs and other executives from more important tasks (Cabrera-Frias, 2012:5).

Bies (2002), indicated, the impetus for this landmark legislation was clear – to “help restore confidence in the (accounting) profession.” Nevertheless, Bies noted that “quality and integrity cannot be legislated,” with the implication that closing the legal loopholes may not be a sufficient condition to prevent such scandals in the future.

Similarly, Beasley et al (2004 cited in Emerson et al 2006:74) suggest that “many accounting fraud cases begin with activities that might be characterized as in the gray zone: not completely acceptable, but not clearly inappropriate.”

The AICPA notes that accounting professionalism “requires much more than compliance with specific rules” but encompasses “a pattern of conduct – indeed a pattern of thinking – that results in the performance of all professional activities with competence, objectivity, and integrity” (AICPA, 2002: Sect. 51.02).

Despite this regulatory intervention, financial failures continued as evidenced by the 2008-2009 corporate collapses such as Lehman, Bear Stearns, Wachovia, AIG, Fannie Mae and Freddie Mac. Clearly there is another dimension to integrity that goes beyond compliance with regulations (Kermis et al, nd: 1).

On the positive and bright side of the issue, (Emerson et al 2007:74) quoted the speech of Securities Exchange Commission (SEC) chairman, William Donaldson:

Were the recent scandals just the tip of the iceberg – as the constant barrage of media coverage implied?

... I feel it is most important to note that currently, there are approximately 15,000 publicly held companies in the United States. Despite the recent attention to malfeasance in corporate America and conflicts of interest on Wall Street, I believe that the majority of companies are run by honest, dedicated people who consistently strive to make good decisions on behalf of their shareholders, employees and other stakeholders and in Wall Street's case, strive to offer investment services in a sincere and transparent way. But, despite the long track records of integrity built over the course of many years, as the bubble fever accelerated, standards began to erode, even among the very best and even, I might add, among the traditional gatekeepers charged with ensuring legal and accounting integrity (May 8, 2003 in a speech delivered to the Economic Club of New York).

Fraud can be perpetrated by any employee within an organization or by those from the outside, therefore, it is important to have an effective “fraud management” program in place to safeguard your organization's assets and reputation (Bhasin 2013:28).

## **2.10 Empirical evidences of Ethical Failure in Africa**

Africa has embarked on the road to economic growth in the last decade or so. The period between independence and the 1970's was marked with decline in the economy and living standards of the

citizens. Political unrest, conflict, and chaotic policies were the marks of the period. Starting from the 1990's Africa is making steady strides to lift its citizens from the trap of poverty.

Privatization of state owned enterprises, liberalization of trade and finance, restructuring of the economy, and the entry of foreign direct investment are generally considered to be the most essential features of change from planned to market economy. Such changes certainly put great pressure on accountants in particular within organizations to be aware of ethical issues that they might encounter during the time of change. The transition, unless supported by robust professional backbone, it is likely to entail corruption, fraud, embezzlement and mismanagement.

Burgess et al (2002 cited in Ahmed 2010:21) argue that the failure of business ethics over the last few years in developing countries is attributable to transition from planned to market economy. Privatization and globalization are expected to make the issue of ethics more vital than ever before in developing countries. The global pattern of accounting / audit frauds pertain to short-term return maximization and promoting CEO's stature at the expense of the public interest.

Africa loses the benefit of billions of dollars each year through illegal tax evasion, money transfers and secretive business deals which is more than all the money coming into the continent through aid and investment. About \$63 billion is lost annually as stated in the 120-page Africa Progress Report. Despite the continent's surging economic growth fueled by the global resources boom, poverty and inequality has worsened in many resource-rich African countries. "It is unconscionable that some companies, often supported by dishonest officials, are using unethical tax avoidance, transfer pricing and anonymous company ownership to maximize their profits, while millions of Africans go without adequate nutrition, health and education," Kofi Annan, the former U.N. secretary-general who heads the panel behind the report, wrote in his introduction (Los Angeles Times, 10<sup>th</sup> May, 2013).

Money taken illegally from the developing world is worth 10times annual global aid budgets, according to a recent study by a Swedish agency, Forum Syd. Tax evasion by multinational companies in Africa is so vast that one tax analyst believes that if the money were paid, most of

the continent would be "developed" by now. But, lacking a sophisticated tax code or the people qualified to enforce tax laws, many African countries continue to lose money that could solve most of its financial problems (Al Jazeera, 16<sup>th</sup> January, 2012)

Akadakpo et al (2013:47) opined that most regularly breached codes are those that border on independence, integrity, transparency and objectivity. Members (Institute of Chartered Accountant of Nigeria, ICAN or Association of National Accountant of Nigeria, ANAN) accept jobs without professional clearance from previous auditors/consultants. Some members also breach accounting ethic codes, such as wrong and false reporting of financial information, embezzlement, fraud and corrupt practices, non-disclosure of conflict of interest and collecting and giving out gifts to influence judgment.

Ogbonna et al (2012:69), evaluated the effect of ethical accounting standards on the quality of financial reports of banks in Nigeria, and they came to the conclusion that the analysis of the data showed that ethical accounting standards affect the quality of financial reports of banks in Nigeria.

Adeyemi et al (2011:146) concluded that there is the need for the profession to direct its efforts towards shaping the views of new entrants to the profession. This can be achieved through sound ethical training as results from the study suggested that this is an important step towards restoring the integrity of financial reporting process. Adherence and enforcement of high ethical standard for members of the profession will go a long way in maintaining diligence in the way members of the profession carry out their duties.

Ajibolade (2008, in Adkadakpo et al 2013:47), in the study "a survey of the perception of ethical behaviour of future Nigerian accounting professionals", indicated that future professional accountants should be properly groomed in ethical standards which is normal for professional growth and improvement of services delivery in financial reporting and auditing in order to maintain the respectability of the profession. Bakre (2007, *ibid*) is of the view that accountants, auditors, and the accounting professional bodies in Nigeria are responsible for extremely poor level of integrity observed. The study also revealed that there were no significant differences in the

perceptions of respondent groups on the need for auditors to abide by high ethical standard and the need to shape the views of new entrants to the profession.

According to Salisu (n.d: 193) the findings from his study revealed that audit firms in Nigeria are still employing certain categories of unethical practices in securing and discharging their audit engagements. Thus, the way and manner at which some auditor's pursue audit assignments renders their independence in jeopardy. This is clearly reflected in the amount of audit fees they are paid, the type of audit report they issue, and the number of years they remain as auditors to a particular company.

In a study conducted in Nigeria, Akpotu et al (2013:13) attribute unreliable accounting data as an aspect of making wrong investment decisions. The general assumption is that information resulting from auditor's control function and interrogative check should guide both management and other stakeholders alike in reaching quality decision either while undertaking strategic renewal or venturing into any new area. Observers of most public organizations have ascribed business failure often times to poor policy crafting and implementation.

The study conducted by Akpotu et al (2013:16) examined unethical behaviour of external auditors and its influence on corporate business failure. The result from the correlation analysis showed a significant relationship between external auditor's unethical practices and corporate business failure among public owned organizations. The various dimensions of unethical behaviour which includes concealment of fraud, collusion with management, certification of untrue and unfair accounts, lack of professional skills, care and diligence and tardiness in discharging duties are all significantly related to the criterion variables. The implication of all these is that unreliable information are providing for strategic investment decision.

Rossouw (1997:1540) highlighted the problem in his journal article entitled "Business Ethics in South Africa". He notes that white collar crime had more than doubled during the first year of the newly formed democratic government. The cases which the South African Police (SAP) were currently investigating (1997) amounted to R18.5 billion. According to the police at the time it was believed that only 10% of all economic crimes were being reported.

## **2.11 Historical Background of Accounting in Ethiopia**

Ethiopia has had alternating political orders: from a developing market economy (pre 1974) to a communist economy (1974 through to 1991), and then back to a market oriented economy (1991 onwards) (Mihret, 2009). The development of accounting in Ethiopia seems to exhibit distinct patterns during the three chronological periods: Pre-1974, 1974 to 1991, and post-1991. These patterns are described below in terms of stakeholders' efforts to promote the development of accounting and the outcomes of such efforts.

According to Kinfu (1990) the establishment of the commercial school in 1943 provided an important and the only venue for training of would be office clericals in commercial subjects such as banking, secretarial and finance. Another development in the 1940s was the start of public accounting in Ethiopia. This is traced to events when British accounting firms, like Price Waterhouse and Peat, opened branches in the country (Mihret, 2009).

An effort to establish indigenous professional accounting associations in Ethiopia occurred in 1973 when the Ethiopian Professional Association of Accountants and Auditors (EPAAA) was established (Kinfu et al 2009:87). According to Mihret (2009), the EPAAA was aspiring to develop to a level where it would certify and license public accountants to practice in Ethiopia. Composition of members to the association included mainly accounting and auditing practitioners.

In 1974, a military government came into power in Ethiopia and declared a communist ideology. Most people agree that this period (up to 1991) was a time when the development of accounting appears to have been held back when majority of foreign private audit firms closed their offices (Kinfu et al 2009:88).

According to Kinfu (2009:89), after 1991, when the country shifted back to a free-market economic order, a number of public enterprises were privatized, which resulted in a new corporate governance structure that would be expected to enhance the importance of financial reports. In parallel development, EPAAA has been re-activated and three other professional associations, i.e. the Ethiopian Accounting and Finance Association (EAFA – it ceased to continue), the Ethiopian

chapter of the Institute of Internal Auditors (IIA), and the Accounting Society in Ethiopia (ASE) have been established (Mihret, 2009).

The journey of the accounting profession in Ethiopia is marked by traverses following the state ideologies. Moreover, the responsibility to develop and enhance the profession was never fixed. Various government organs had assumed responsibility at occasions. The legal mandate given to OFAG itself was considered supplementary duty as the office had other major responsibilities.

In recent periods, the Ethiopian Civil Service College was also given the mandate to certify and regulate the professionals. Add to this, the effort to develop national standard oscillated between MoFED, Addis Ababa Chamber of Commerce and Ministry of Industry. Absence of an authoritative body entrusted with the power to issue code of conduct and regulate the practice was a serious impediment for the profession.

Now that a proclamation that endorses the adoption of IFRS and provides for the establishment of a regulatory body with a sole purpose of regulating the profession is in place – one may say the better days for the profession are around the horizon.

## **2.12 Professional Ethics in the Ethiopian Context**

The Report on Observance of Standards and Codes (ROSC 2007) report found out that the environmental factors and the practices of professionals have led to lower perception of the accounting profession and the reports thereto. ROSC findings are summarized in the following paragraphs:

- **There is a lack of appreciation of the role of quality financial reporting by the business community.** Stakeholders indicated that there is lack of appreciation of good quality financial reporting by the business community. Most people in the business community are not aware of the importance of good quality financial reporting and the purpose it would serve.
- **Appointment of auditors is usually through bidding process with hardly any regard to technical expertise.** Most auditors complained that the audit fees in the country are very low, mainly caused by a practice where most appointments for auditors are done

through a bidding process, with little or no regard of professional expertise. This is indicative of little appreciation of high quality audit services.

- **Banks do not rely on financial statements for lending.** The lending culture is largely based on collateral security. If anything, financial statements play a small secondary role.
- **Tax authorities and businesses do not easily agree on the financial statements for tax purposes.** Business people indicated that tax authorities do not trust their financial statements. Tax authorities on the other hand stated that they encounter financial statements prepared on a wide range of bases, mostly indicating the businesses' lack of understanding of the tax law. This situation is inefficient and burdensome to both parties as there has to be a lot of vouching by the tax authorities and a lot of negotiations between the parties.

OFAG (2009:5) summarizes the conditions of auditing and accounting in its preamble to the Ethiopian Code of Ethics for Professional Accountants – “According to the existing conditions, most authorized auditors and accountants perform their duties in accordance with the professional standards and ethical requirements developed by OFAG in the past. In other circumstances, we have received complaints made by clients and third parties against some authorized auditors and accountants regarding the unethical actions done by the practicing auditors and accountants.

According to Beyene (MSc thesis 2007:98) there are evidences where authorized auditors' are influenced in their undertakings due to

- Auditor's dependence on their client's for financial and other interest,
- Situations when auditor's give an opinion based on the demand of their clients, and clients demand unqualified opinion,
- Doing both accounting and auditing services for one and the same client which may result in violation of professional ethics.

According to Beyene (ibid) in most cases the users of financial statements of an entity prefer audited financial statements for making rational decisions. However, in developing countries like Ethiopia, the awareness creation and efficient practices of the auditors has not yet developed very well. The researchers personal observation over five years period revealed that auditors acting in

what may seem illegal during examination of the financial statements of an entity. Thus, it is his belief that some auditors in Ethiopia may be releasing misleading audited financial statements. There is a reason of believe that private auditors of Ethiopia may have been producing misleading audited financial statements by:

- Reporting assets that do not exist,
- Considering or not disclosing inadequate provision for doubtful debts,
- Reporting stock records disregarding stock inventory counts,
- Treating capital expenditures as periodic expenses,
- Not disclosing misapplication of accounting principles,
- Expressing the audit opinion based on the client's interest and others.

According to Yonas (MSc thesis, 2015:86) the findings show that most of private audit firms do not comply with the fundamental principles of professional ethics for professional accountants and they are not independent when providing their professional service to the public. This professional ethics and independence is affected by self-interest, self-review and familiarity type of threat and the main source of these threats are lower audit fee, lack of proper assessment and making professional clearance before accepting new client, making assessments to identify any conflict of interest between the firm and client, performing other non-assurance service, having family, financial and personal relationships with client and having long association of senior personnel with an audit client.

The empirical evidences and findings corroborate the existence of ethical failure in the Ethiopian context. Therefore, the purpose of this study was to find the threats encountered by Authorized Accountants and Auditors with respect to professional ethics.

In the Ethiopian context, the complaints with regard to accounting / audit reports pertain to maintaining double records: for tax purposes understating revenue to reduce taxes payable and for bank purposes inflating revenue to promote credit worthiness of a firm, authenticating financial reports without due review, operating without the requisite license, engaging in the service using forged licenses, etc. which have significantly reduced the reliability of financial reports on the part of users: banks, government agencies, partners, joint venture holders, creditors, etc.

## **2.13 Summary and Gap in Existing Literature**

Corporate scandals that span across continents had rocked the ethical perception of the accounting profession from its very foundation. Since the major scandals of Enron, WorldCom and the demise of the audit firm Arthur Anderson, accounting ethics has been the focal point of politicians, legislators, academia, and practitioners alike.

Numerous researches have been conducted and are being carried-out as to the root causes, implications, corporate culture and loopholes in the profession. However, most of the researches are confined to developed nations where the scandals have hit hard. Africa which is losing huge amounts through tax evasion, frauds and embezzlement is not addressed adequately in the researches.

On the positive side, the global initiatives to monitor and fight tax evasion, money laundering and monitoring illegal transfers are gaining momentum. These initiatives need to be supported by the professional at the center of concern – accounting.

Legal provisions which require strict disclosures have been enacted. Nevertheless, corporate failures of huge proportion continue to surface. Despite all these efforts, the trust building on the reports and the profession may take some time. With regard to Ethiopia studies conducted so far corroborate the existence of malpractice and lower regard for professional ethics.

Taking the Ethiopian context in perspective, the profession is at a historical turning point - a law that provides for the adoption of IFRS has been promulgated. An office with vested power to oversee and regulate the profession has been set-up. The office is expected to come-up with its own set of rules and code of conducts to oversee the practice.

Hence, taking professional ethics as a subject of the study, at an exploratory level, is a worthwhile venture and highly timely.

# **CHAPTER THREE**

## **RESEARCH METHODOLOGY**

### **Introduction**

This chapter deals with the research design, approach and methodology. It highlights the profile of Authorized Accountants and Auditors, discusses who the participants to the research are, the research design, the universe of the study, the sampling procedure, sample frame, the sample size and sampling criteria, tools used for data collection and the precautions taken to ensure data integrity. Add to these, the chapter tries to discuss the unique features of the profession vis-à-vis the research objective.

### **3.1 Participants**

The research is carried out in Addis Ababa. Addis Ababa is selected due to the fact that most of the Authorized Accountants and Authorized Auditors operating in the country are found in the City. The target groups of the research are Authorized Accountants and Auditors working formally under license from the relevant office.

Parallel to Authorized Accountants and Auditors, Tax Auditors (ERCA) and branch managers and or loan officers, who are directly dealing with the financial reports submitted by clients, from selected banks were involved in the study with the objective of triangulating the data collected from the subjects of the study. These groups are included in the study for being the principal users of the financial statements and reports generated by the professionals.

In order to enrich the data and to validate the accuracy, key informants comprising board members of the Ethiopian Professional Accountants and Auditors Association (EPAAA) were also involved.

## **3.2 Research Design**

The research approach for the study is mixed approach which aims to identify the significant threats that are presumed to have effect on adherence to professional ethics. Mixed research augmented with quantitative analysis is a scientific research. It seeks to understand a given research problem or topic from the perspectives of the target population it involves. Mixed research is especially effective in obtaining specific information about the values, opinions, behaviors, and social contexts of particular research population.

The strength of mixed approach is its ability to provide complex textual descriptions of how people experience a given research issue. It provides information about the “human” side of an issue. Qualitative approaches augmented with quantitative analysis are also effective in identifying intangible factors, such as social norms, socio-economic status, gender roles, ethnicity, and religion, whose role in the research issue may not be readily apparent (Family Health International, n.d:2). Under qualitative approach gaining a rich and complex understanding of a specific social context or phenomenon typically takes precedence over eliciting data that can be generalized.

In consideration of these features, qualitative approach is applied to study the threats influencing adherence to professional ethics by Authorized Accountants and Auditors. The main purpose of this research is to identify the variables and their significance in explaining ethical practices by Authorized Accountants and Auditors.

The method employed is survey. The survey method enables a researcher to address the target population on a sampling basis.

## **3.3 Universe of the Study**

The research is focused on Authorized Accountants and Auditors in Addis Ababa. Authorized Accountants are engaged in the preparation of financial statements while Authorized Auditors provide the attesting / assurance service of the financial statements, Moreover, Authorized Accountants and Auditors optionally render consultancy service and tax advisory role. The licensing authority for Authorized Accountants and Authorized Auditors was Office of the Federal

Auditor General (OFAG) until 2007 E.C. This process is undergoing through a change in which case starting from 2008 E.C the licensing body has now become Accounting and auditing Board of Ethiopia (AABE).

The listing of Authorized Accountants and Auditors from OFAG and EPAAA was consulted to appreciate the total population size. However, identifying whether they are actively engaged in the service or not and tracing their location was difficult. However, the data obtained from OFAG depicts that there are 49 Authorized Auditors and 521 Authorized Accountants in the country.

The initial effort to carry-out the survey on random sample basis encountered a challenge. For ethics being a sensitive subject, initial contacts for the questionnaire administration declined the request. Having gone through the facts on the ground and based on the valuable information obtained from the discussion with the EPAAA office (key informant), snowball sampling technique was applied. Under the snowball sampling, specific Authorized Accountants and Auditors were approached for their consent and willingness to take part in the study. Once their consent was obtained they were required to recommend other professionals to take part in the study.

Key features of the study subjects are

- Authorized Accountants and Auditors provide service to a pool of clients that shift among service providers on convenience basis;
- The minimum required qualification and experience for Authorized Accountants has been applied uniformly by the licensing authority.
- The minimum required qualification for Authorized Auditors is ACCA / CPA and three years experience in auditing;
- The legislative and working environment among the professionals is similar; and
- Authorized Accountants and Auditors are accountable to identical regulatory body and are subject to similar regulations in their professional pursuit.

The subjects of the study feature homogeneity in many aspects. The regulatory and legislative environment within which they operate is similar, if not identical. Therefore, the sample size was reduced to a manageable size to reduce data redundancy. Furthermore, depth of the information is sought over spread to enrich the case study.

## **3.4 Sampling**

### **3.4.1 Snowball Sampling**

Snowball sampling is a variant of purposive sampling, where a few members of a sub-population are located, and each is asked to suggest other members of the subpopulation for the researcher to contact (Penny et. al: nd. 236). In snowball sampling one starts by identifying a few respondents that match the criteria for inclusion in the study, and then ask them to recommend others they know who also meet the selection criteria (Anol, 2012:70).

Snowball sampling is further recommended for the study of cases which are considered sensitive to the respondents. Although this method hardly leads to representative samples, it may sometimes be the only way to reach respondents.

In snowball sampling, wave of recommendation through separate channels is expected to reduce the bias that may result from a connection established using a single channel. Hence, snowball sampling using different channels was employed to undertake the study which tries to assess the threats encountered by selected Authorized Accountants and Auditors in their pursuit of upholding professional ethics.

### **3.4.2 Sample Size**

A feature of qualitative sampling is the fact that the number of cases sampled is often small. This is because, as mentioned earlier, a phenomenon only needs to appear once to be of value. There is no need for scale as there is no need for estimates of statistical significance. Furthermore, because qualitative investigation aims for depth as well as breadth, the analysis of large numbers of in-depth interviews would simply be unmanageable because of a researcher's inability to effectively analyze large quantities of qualitative data. However, the small-scale approach only works if the researcher has a strong sampling strategy (Ritchie et al 2003:84).

The participants, as discussed in previous paragraphs, were selected for having representative features of practicing professionals. Moreover, Authorized Accountants and Auditors more or less depict homogeneity, within their group, with respect to threats to professional ethics.

On the other hand, the Tax Auditors and bankers (major users of the financial reports) whose response is employed to triangulate the data collected from the study subjects are considered homogenous group as well. These principal users of financial reports receive and utilize financial statements prepared and attested by the Authorized Accountant and Authorized Auditors respectively.

In this regard, the researcher was required to make contact with volunteer Authorized Accountants and Auditors. Once, these respondents were identified, snowballing was used where respondents inform / introduce the researcher to another practicing professional. Employing snowballing in recruiting participants allowed better participation using existing networks.

The disadvantage with snowballing is that a sampling frame created using this method may be prone to bias. This is because those who know each other may have similar attitudes. However, the limitation is assumed to be off-set by the use of various channels of recommendation and the relative homogeneity of the members of the Authorized Accountants and Auditors.

**Table 1: Sample table**

Category	Sample Size	Remarks
Authorized Accountants	12	Located in Addis Ababa
Authorized Auditors	12	Located in Addis Ababa
Tax Auditors	12	ERCA staff
Bankers	12	A mix of officers from smaller and intermediate banks considered for the questionnaire
Key informant Interview	2	EPAAA Board members

*Source: own proposal*

### 3.4.3 Sampling Criteria

The objective of the study was to identify threats to professional ethics by Authorized Accountants and Auditors actively engaged in public service. Hence,

- Accountants or Auditors employed in various firms, institutions or offices were excluded from the sample,
- Tax auditors of (ERCA) and bankers were included in the study to validate the findings from the Authorized Accountants and Auditors.

## **3.5 Tools for Data Collection**

### **3.5.1 Questionnaire**

Data collection was facilitated through the use of questionnaires which were prepared in four sets being addressed to: Authorized Accountants, Authorized Auditors, Tax Auditors (ERCA) and Bank staff / officers. The questionnaires intended for the Authorized Accountants and Auditors were designed to address issues pertaining to factors and threats in the course of service provision while the one addressed to the Tax Auditors and Bankers was designed to capture their perception of the quality of reports and the profession. It is worth noting that given the size of the sample size interview would have been a preferred method to collect the data. However, since the case is sensitive and at times reveals personal traits the self-administered questionnaire is opted to allow a relative ease and freedom to the respective respondent.

Respondents were required to provide personal profile information and rank factors along a predefined rating. The factors had an option for difficult to give opinion (can't say). To improve the data capturing capacity of the questionnaire, tabular list of factors with corresponding rating was given to respondents just to put an "√" mark in the box they perceive appropriate. The options under this section range from strongly agree to strongly disagree.

To enrich the data, the final part of the questionnaire was devoted to capture opinions of respondents pertaining to critical issues.

### **3.5.2 Key Informant Discussion**

Add to this, key informants with working experience in EPAAA in the capacity of board member and secretary were interviewed. One of the key informants is currently board member of ASE. The

key informants were selected for their years of experience in EPAAA and hands-on involvement in matters pertaining to the issues addressed in the study.

The key informant discussion was carried, using separate sessions, through a structured interview with the objective of framing the discussion to the subject of professional ethics.

### **3.6 Data Validity**

The adequacy of the tool for data collection was evaluated by a pilot test before application on large scale. The researcher administered the questionnaire and conducted discussions with selected Accountant working on a free lance basis.

Respondents may give false or incomplete information because they:

- Are tired of researchers and research projects that do not bring change,
- Prefer secrecy because the subject of the discussion is sensitive,
- Distrust researchers, international agencies, and public officials who conduct, commission and endorse the study,
- Do not know the answer,
- Have no written track-record of events or encounters, etc.,
- Do not perceive the questions as relevant to their profession,

These factors were evident during the data collection exercise. Certain professionals were suspicious of the motive of the data collection, despite efforts to persuade them, and thus declined from participation.

### **3.7 Integrity**

Case studies are not without criticism. The criticisms are based on lack of rigour, validity and reliability. Case study research can achieve integrity or rigour of validity through: construct validity; confirmability; and reliability/dependability.

**Construct validity:** Case study research can achieve construct validity by developing its constructs through a literature review, use of multiple sources of evidence, establishing a chain of

evidence, and having key external informants review draft case study reports. Multiple sources or triangulation of evidence is also recommended as a technique for construct validity. The subjectivity inherent in the case study method can be reduced through prudent selection of the case study interviewees, a structured interview process, and a structured process for recording, transcribing and interpreting the data. Thus, a chain of evidence can be established from the beginning of the research questions through data collection to the final conclusions (Christie et al, 2000: 16).

In order to promote the construct validity of the research under discussion, a structured interview process was instituted. The data obtained through questionnaire was reviewed with key informants who have direct interface with the profession.

**Confirmability:** is defined as ability of others to satisfy themselves that the research was carried out in the way it is described by the researcher. The basic technique for ensuring confirmability is developing a record of data collected to allow other researchers to observe the chain of evidence. This audit trail would allow an external observer to trace the logical progression of reasoning from the evidence presented to the conclusions drawn.

The research under discussion is evidenced with questionnaires, discussion and records obtained from the respective respondents and are properly documented for an independent review and to enhance traceability.

**Reliability/dependability:** Finally, the test of reliability/dependability deals with the ability of other researchers to carry out the same study and achieve similar results. However, data in qualitative research on the same real life situation can be collected by different researchers, who use differing methods, and at different times. The approved case study techniques for reliability tests are to establish the case study protocol during data collection and the establishment of a case study data base (Ritchie 2003:271).

In conclusion, possible efforts were exerted to enhance the integrity of the case study under discussion through construct validity, confirmability and dependability.

### **3.8 Data Processing and Analysis**

The data collected thus was tabulated and checked for anomalies. The data was further analyzed using simple descriptive statistics in light of the research objective.

### **3.9 Ethical Issues**

The participants to the research were fully informed of the purpose of the study and its possible significance to the profession. They were involved upon their fully informed consent.

Any information that was deemed confidential or sensitive in relation to their operation or activity shall be kept under strict secrecy and the data collected thus shall be used for academic purpose only.

# CHAPTER FOUR

## FINDINGS AND DISCUSSIONS

### Introduction

Chapter four is devoted to data presentation, analysis and discussion. The data collected are presented in tabular format along with corresponding statistical figures. The data are summarized in line with the major factors which were presumed to have significant impacts on observing professional ethics. The tabular summaries are followed by narration and analysis of the facts to ease illustration of the discussion.

The results of the data collected from Authorized Accountants and Authorized Auditors are evaluated by triangulating the same with principal users of financial reports: Tax Auditors and Bankers. Furthermore, Key Informants Interview was carried out to capture the overall perception and adherence to professional ethics. The different sources employed: questionnaire, interview and document review results were geared to accomplish the objectives of the study and answer the research questions.

**Table 2: sample size and response rate**

No.	Respondents Group	No. of questionnaire		Response Rate (%)
		Distributed	Collected	
1	Authorized Accountants	12	9	75.0%
2	Authorized Auditors	12	8	66.7%
3	Tax Auditors	12	6	50.0%
4	Bankers	12	10	83.3%
5	Key Informants Discussion	2	2	100.0%
	<b>Total</b>	<b>50</b>	<b>35</b>	

*Source: own computation*

## **4.1 Threats to Professional Ethics – Selected Authorized Accountants**

A total of twelve questionnaires were distributed to Authorized Accountants, located in Addis Ababa, using snowballing method. The questionnaires dealt with threats to professional ethics encountered by Authorized Accountants. Nine questionnaires were collected (75.0% response rate). Taking into account the initial difficulty of collecting data, a 75.0% response rate is assumed reasonable.

As indicated in the methodology part of the study, survey was the main strategy of inquiry adopted to assess the threats encountered by Authorized Accountants with respect to professional ethics. In this connection, the results obtained from the survey are analyzed through descriptive statistics and frequency distribution. Descriptive measures of the response and the discussions thereto are presented subsequently.

### **4.1.1 Profile of the Selected Authorized Accountants**

The demographic characteristics (annex 2:1) part was intended to capture the overall background that range all the way from personal information like gender, educational level and work experience to the profile of the organizational arrangement of the authorized accountant under discussion. Staff sizes, clients' information, average stay of clients with the authorized accountant etc. which have direct bearings vis-à-vis adherence to fundamental principles of ethics were also addressed.

The respondent Authorized Accountants were all male having a minimum of BA degree in Accounting where 77.7% of the respondents have working experience of less than 10 years. Lacking a female respondent was a limitation which could otherwise have the benefit of observing the influence of gender with regard to threats to professional ethics.

When it comes to the organizational arrangement of Authorized Accountants, 88.8% of the respondents are sole proprietorship which implies that they are in charge of both the professional task as well as the review and approval process. Similarly, 66.6% of the respondents have client

size up to 50 (being 33.3% having a client size of 1 – 25 and 33.3% addressing a client size of 26 – 50).

The organizational profile of their clients is heavily composed of sole proprietorship (77.7%). Sole proprietorship types of organizations are usually owner managed lacking formal structure which limits the organizational environment for robust safeguards or procedures.

The data collected reveals that Authorized Accountants are principally engaged by the client for the preparation of annual financial statements and to a lesser extent to handle monthly and quarterly tax returns. In a similar vein, the reason for seeking the service of Authorized Accountants is mainly for tax filing purpose, followed by the need to meet creditors' request and to a lower extent to use the data for performance evaluation purpose. The response indicates that the service of Authorized Accountants is mainly sought in the preparation of financial statements for external use. The external parties (users of the financial statements) are likely to employ the input to base their decision. Hence, the quality of the reports is of critical importance to stakeholders.

The average stay of clients (engaging the respondents) between 2 – 4 years is 55.6% while the ones staying between 5 – 7 years is 33.3%. The indication is that Authorized Accountants stay engaged with a client for a while. The more the engagement period is prolonged, the more likelihood for exposure to familiarity threat.

To summarize, the profile of Authorized Accountants depicts that majority of them are organized as sole proprietorship and principally being engaged in the service of sole proprietorship clients. This is presumed to put a cap on safeguards provided by work environment. Furthermore, Authorized Accountants are mainly engaged to prepare financial statements for use by external bodies. The users of the financial reports prepared thus are likely to base their decisions on the input obtained from the financial statements. These facts coupled with prolonged engagement stay with a given client increase the propensity of exposure to threats.

## 4.1.2 Authorized Accountants' Own Experience of Threats

### 4.1.2.1 Threats to Organizational Environment

Recent corporate scandals have demonstrated that organizational environment and management culture is a key feature in ensuring ethical practices. The tone at the top and established systems, procedures and arrangements do play a significant part in safeguards against unethical practices. Threats to organizational environment can further create an environment of intimidation, where the management aims at self promotion at the expense of stakeholder or users of financial statements.

**Table 3: Descriptive statistics of threats to organizational environment**

	N	Ranking				
Q.1 Organizational arrangement of clients	9					
• Family based		1				
• Owner manager		2				
• Hired professional		3				
• Structured along organizational line		4				
• Structured along organizational line and having Board of Directors		5				
Q.2 Do your clients have accountants handling the regular financial recording activity		Incidence of client having regular staff (taken as a percentage of clients)				
		100%	75%	50%	0%	Don't know
Number of respondents	9	1	1	5	2	0
%		11.1	11.1	55.6	22.2	0

*Source: own computation*

The data collected shows that the majority of clients served by Authorized Accountants are run on family basis and owner manager basis. Where family based and owner manager organizational arrangement takes precedence over other structured forms of organizations, safeguards provided by work environment become loose.

The response obtained from the Authorized Accountants with regard to availability of accounting staff with the client reveals that only 11.1% of respondents engage with clients having a regular

accounting staff all the time. The other respondents are exposed to an environment whereby regular accounting staff may not be available (88.9%). In such instances the Authorized Accountant is required to deal with all tasks pertaining to the accounting activity. This in turn creates a loophole for self-review threat.

#### 4.1.2.2 Threats to Professional Competence and Due care

Professional competence and due care is considered the core of the fundamental principles of ethics. It demands not only attainment of professional knowledge and skill but a continuing duty to maintain the knowledge and skill at the level required to ensure that a client receives competent professional service. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

**Table 4: Descriptive statistics of threats to professional competence and due care**

	N	Yes	No
Q.11 Do you provide authentication service for financial statements prepared by accountants working without license (provided that you know them)	9	2	7
%	100	22.2	77.8
Q.12 Do you provide authentication service for financial statements prepared by accountants working without license (even if you don't know them)	9	0	9
%	100	0	100.0
Q.13 Do you accept transactions which are doubtful but are legal?	9	4	5
%	100	44.4	55.6

**Source: own computation**

The fundamental principle of professional code of ethics dictates that accountants in public service should not allow others to use their name unless the work is done under their close supervision or control.

In the Ethiopian context this is one of the most contentious issues where persons not duly authorized are operating in a large scale using authentication service of Authorized Accountants. As the response to Q.11 indicates, Authorized Accountants are engaged in authenticating works of others who operate outside of the legal provisions (22.2%). The discussion with one of the key informant with respect to this issue revealed 53 existence of “Brief Case Authorized Accountants

and Authorized Auditors” who move around with their seals and stamps in their brief cases offering their stamp upon request without due process or review.

The topic further brings to light that familiarity with the person (prior acquaintance) also influences the decision to authenticate rather than the professional guidance. The response to Q.12 corroborates this assertion, where none of the respondent practicing accountants authenticate financial statements prepared by persons whom they do not know.

The underlying assumption that a professional accountant acts with due care and diligence is challenged when a professional under question accepts doubtful transactions. 44.4% of the respondents concurred that they would accept a transaction provided that it is legal. This implies that significant number of the respondents tend to follow the rules than the principles.

#### 4.1.2.3 Threats to Safeguards by Legislative Environment

Legislative environment which is provided externally plays a significant part in maintaining the values of the accounting profession. Accounting per se is about public responsibility. It can only discharge the public responsibility vested upon it through enabling legislative environment.

**Table 5: Descriptive statistics of threats to safeguards by legislative environment**

	N	Ranking	
Q.5 In your view what are the major threats to professional ethics at macro level	9		
• Absence of accounting standard		1	
• Absence of regulatory body		2	
• Frequency of changes in the regulations		4	
• Lack of professional development opportunity		3	
Q.17 Do you think there are irregularities, on the part of law enforcement bodies in the application of laws and regulations pertaining to the profession?	N	Yes	No
No of respondents	9	7	2
%	100	77.8	22.2

*Source: own computation*

Officially endorsed accounting standard was an elusive issue in Ethiopia. Various efforts, over the years, aimed at having accounting standard could not come to fruition. There was no standard to follow or adhere to. This in turn has created a vacuum which proved to be a serious challenge to the profession. The findings, assert that absence of accounting standard to be the major challenge followed by the absence of regulatory body.

Safeguards to threats are provided by the profession itself, legislation and regulation. The regulatory safeguards pertain to monitoring, disciplinary procedure and external review. As discussed in the literature review part, the regulatory environment was lacking in the Ethiopian context. The Office of the Auditor General (OFAG) was tasked to regulate the profession on top of the extended responsibilities it is encumbered with.

Add to this, various ministerial offices and institutions have assumed various roles at various times. It is only recently that an office entrusted with the sole purpose of regulating the profession came to be realized. Hence, the findings which attest irregularities at 77.8% are consistent with the overall setting of the profession in Ethiopia.

#### 4.1.2.4 Threats to Integrity

The concept of professional integrity requires the professional not to be associated with reports, returns or communications which are materially false or misleading.

**Table 6: Descriptive statistics of threats to integrity**

Q.3Do you think financial statements submitted to stakeholders are fair presentation of facts of reporting entity	Incidence of financial statements submitted being fair representation of facts (taken as a percentage of clients)					
		100%	75%	50%	0%	Don't know
N	9	1	1	5	2	0
%		11.1	11.1	55.6	22.2	0

*Source: own computation*

The survey question was meant to address the extent to which Authorized Accountants are confident that the reports produced by them represent the fair presentation of reporting entities. The response revealed that only 11.1% of the respondents assert 100% (all the reports produced) to be fair representation. While an alarming number of respondents 55.6% consider that only in 50% of the cases are the reports fair representations of the facts of the reporting entity.

Furthermore, 22.2% of the respondents believe that the reports do not at all reflect the situation in relation to the reporting entity. However, the responses are consistent with the findings of ROSC (2007) which indicates lower acceptance of financial reports by users and stakeholders.

#### 4.1.2.5 Threats to Objectivity

Objectivity pertains to the capability not to compromise professional or business judgment because of bias, conflict or interest or succumbing to influences. Threats to objectivity lie at the heart of the major corporate scandals that rocked the accounting profession from its very foundation. The professionals tainted with the scandals gave priority to clients' interest over and above the public. Furthermore, they allowed compromising their business and professional judgment while looking for loopholes in the rules.

**Table 7: Descriptive statistics of threats to objectivity**

	<b>N</b>	<b>Ranking</b>
Q.7 As an Authorized Accountant, what do you think is your primary responsibility?	9	
• Client interest		3
• Users' interest		2
• Public interest		1
• Can't tell		
Q.8 When faced with choices of decisions, you base your decision on		
• Your judgment		2
• Professional ethics		1

*Source: own computation*

The data collected from respondents with respect to the primary responsibility of Authorized Accountant shows that public interest is ranked first followed by users' interest. The rai-son d'être of the accounting profession is upholding public interest. The findings are in tune with the dictates of the profession. However, the presence of a response that ranks client interest as the prime responsibility calls for attention.

The response to resolution of decision between choices indicates that professional ethics comes first with significant majority while a single respondent is of the position to prefer own judgment to resolve issues that entail choices.

#### **4.1.2.6 Threats to safeguards by Professional Environment**

The professional environment provides safeguards by way of professional standards, educational, training or experience required for entry into the profession. Add to this, continuous professional development is an essential element provided by the professional environment.

The professional environment is closely linked with professional competence and due care which requires the professional to keep abreast of current developments in the profession and keep track of new legislations and regulations enforce.

**Table 8: Descriptive statistics of threats to safeguards by professional environment**

	<b>N</b>	<b>Ranking</b>
Q.6 In your view what are the major threats to professional ethics at individual accountant level	9	
• Lack of awareness of professional ethics		2
• Influence of clients		2
• Absence of continuous professional development		1
• Promotion of self-interest over professional duty		2
• Other		

*Source: own computation*

Continuous professional development is ranked as the most serious issue. Currently, continuous professional development is entertained with the UK based ACCA program. A professional qualification program tailored to the Ethiopian setting is yet to come.

The response to the major threats to safeguards by professional environment at individual level is evenly distributed between the various factors: lack of awareness of professional ethics, influence of clients (intimidation threat) and promotion of self-interest over professional duty.

The professional code of conduct issued by the Office of Federal Auditor General (OFAG) was not strictly followed and implemented due to other competing responsibilities of OFAG. The other threats may be associated with concern about losing a client or undue dependence on total fee from the client.

#### 4.1.2.7 Self-interest Threat

Professional appointment requires due care as to verifying the client’s operation, legal compliance, nature of business, etc. otherwise, self-interest threat will interfere with professional competence and due care.

**Table 9: Descriptive statistics of self-interest threats**

	N	Yes	No
Q.9 Before taking an engagement with a client do you check the client’s background (compliance history)	9	6	3
%	100	66.7	33.3
Q.10 Before taking an engagement with a client do you check financial reports prepared before you were commissioned to the task	9	8	1
%	100	88.9	11.1
Q.18 Have you ever used information obtained, as a result of your engagement to negotiate fee?	9	6	3
%	100	66.7	33.3

Q.20 Do you have clients which you consider are too important as a source of your revenue?	9	5	4
%	100	55.6	44.4

*Source: own computation*

The response to Q.9 reveals that 33.3% of the respondents concur that they do not verify the compliance history of a new client before taking professional appointment. This opens a room wide open for the professional to enter into a business whose background is not verified.

In a similar pattern, the question (Q. 10) intended to address whether the professional accountant verifies the financial reports before the appointment reveals a different pattern. 88.9% of the respondents do verify the financial statements prepared before their engagement. Since, the response to this is in sharp contrast to the previous response, it implies to technical concern than ethical i.e. one needs the balance sheet items and other schedules / notes to commence work on the subsequent period.

The issue of contingent fee which depends on outcome of results, unless fixed by a third party, creates conducive ground for self-interest threat or advocacy threat on the side of the professional accountant while it may also be used as an intimidation threat by the client. In this regard, the response shows (Q. 18) that a staggering 66.7% of respondents use the information obtained as a result of their appointment/engagement to negotiate fee.

The existence of a client which is considered too important as a source of revenue makes the professional vulnerable to pressures and intimidation. In this connection, 55.6% of the respondents (Q. 20) reveal the existence of a client which is too important as a source of revenue. Such heavy dependence on a client is likely to create threats to objectivity and or self-interest threats. The responses to questions intended to address self – interest threats depict a serious concern to the profession.

#### 4.1.2.8 Familiarity Threat

Familiarity with a client may have its roots to being close or to immediate family relationship, long association or to gifts or preferential treatment from a client. Familiarity threat interferes with objectivity, professional competence and due care and professional behavior.

**Table 10: Descriptive statistics of Familiarity threats**

	<b>N</b>	<b>Yes</b>	<b>No</b>
Q.19 Do you think a relationship with a client (friendship, family, long standing service, etc.) influences your approach to the task?	9	4	5
%	100	44.4	55.6
Q.21 Have you ever sympathized a client's position (financial distress, damages to property, etc.) to base some of your decisions?	9	1	8
%	100	11.1	88.9

*Source: own computation*

The theoretical argument (IFRS code of ethics) cautions that long association or family relationship imposes a familiarity threat. Consistent with the theoretical argument, 44.4% of respondents agree that familiarity threat influences their approach to the task implying a challenge to objectivity and professional due care.

This is a serious concern taking into account the fact that financial reports are principally prepared for external users' consumption in the Ethiopian context, (as per the findings of this study). The financial reports may suffer from influences that would hamper professional competence and due care and objectivity.

In a parallel vein, respondents were asked (Q. 21) whether they would sympathize with a client having one or another form of stress. The response indicates that only 11.1% would sympathize with the client in their decision-making while 88.9% would not sympathize.

#### 4.1.2.9 Intimidation Threat

Intimidation threat may manifest in various forms. Among them is a threat to terminate or discontinue engagement, litigation threats and a pressure to reduce the quality of the report through reduction of extent of work or reduced fee.

Intimidation threat is intended to force the professional to compromise quality on account of self – interest i.e. not to lose important client with the accompanying revenue or to exert pressure on the professional to reduce the extent of work which has implications on integrity, professional competence and due care as well as objectivity.

**Table 11: Descriptive statistics of Intimidation threats**

	<b>N</b>	<b>Ranking</b>	
Q.4 In your experience, clients are primarily concerned with	9		
• Exaggerating profit			2
• Exaggerating expenses			1
• Understating inventory			4
• Fair presentation of facts			3
Q.14 Were there circumstances / cases where managers or owners approached you to adjust figures (in their favour) in the reports	<b>N</b>	<b>Yes</b>	<b>No</b>
N	9	4	5
%	100	44.4	55.6
Q.15 Were there circumstances where your engagement contracts were terminated for refusing a pressure from client?	<b>N</b>	<b>Yes</b>	<b>No</b>
N	9	7	2
%	100	77.8	22.2
Q.16 Have you withdrawn from an engagement due to perceived threat to your professional judgment?	<b>N</b>	<b>Yes</b>	<b>No</b>
N	9	8	1
%	100	88.9	11.1

*Source: own computation*

The fair presentation of financial reports which are free from materially false or misleading information would be severely threatened by the absence of safeguards in the work environment and legislative or regulatory frameworks. This is demonstrated by the ranking of clients' concern where fair presentation of facts is ranked 3<sup>rd</sup>. Exaggerating expenses and profits are the desired outcomes to influence decision making process of users. The interest for misleading reports has the intention of maximizing own benefit at the expense of users of the financial reports.

The response to question number 14 further corroborates that the management of reporting entities exerts pressure (of various kinds) to get altered figures to suit their needs. 44.4% of the respondents concur to the experience of being pressured to adjust figures as dictated by the reporting entities. This is quite significant proportion taking into account the very purpose of "fair presentation of facts and public trust". The wide practice of preparing misleading reports has resulted in low acceptance of financial statements by various stakeholders. This is in line with the ROSC 2007 findings and the generalized reference to the same by OFAG in the preambles of the revised code of conduct.

The extent of intimidation in the work environment is further accentuated in the response to question number 15 whereby the incidence of appointment to service is terminated for resisting the pressure from reporting entities. The response shows that 77.8% of respondents have suffered from termination of engagement for refusing a pressure from the reporting entity. This signifies the extent of exposure of work environment threat and the resulting self-interest threat and the challenge to uphold the principle of integrity.

Corollary to the magnitude of intimidation, 88.9% of the respondents have the experience of withdrawal from professional appointment. Avoidance of threat through withdrawal is the last resort. A professional is expected to employ threat mitigation mechanisms or apply safeguards to minimize the impact of the threat encountered. Hence, the finding implies that the extent of pressure and the significance of the case thereto is material that the respondents have opted to withdraw from the engagement. In addition to this, the incidence clearly demonstrates weakness of work environment safeguards as a protection to professional accountants.

To wrap-up the individual perception and encounter of Authorized accounts, the threat from work environment, legislative environment, intimidation threat and integrity are significant while the rest are considered as having less influence in ethical behavior.

### 4.1.3 Authorized Accountants' Perception of the Threats to the Profession

This part of the analysis pertains to Authorized Accountants' overall perception towards the practice and the threats to the profession. The previous chapter dealt with their own experience with regard to threats. This part is intended to validate the responses provided at individual level with that of the perception at the profession level.

#### 4.1.3.1 Intimidation Threat

**Table 12: Descriptive statistics of Intimidation threats at profession level**

No.		N	Mean	Standard Deviation
1	Clients pressurize Authorized Accountants to make adjustments in their favour	9	2.7778	1.1214

*Source: own computation*

With a mean value of 2.7778, the findings reveal that threats at professional level are consistent with the individual own experience. The opinion, however, is diverse as evidenced by a standard deviation value of 1.1214. This indicates that the working environment in which Authorized Accountants engage in professional capacity differs significantly i.e. some of the respondents encounter a pressure to manipulate figures while some may not be faced with similar moves by the clients.

#### 4.1.3.2 Threat to Integrity

**Table 13: Descriptive statistics of threats to integrity at a profession level**

No.		N	Mean	Standard Deviation
16	Authorized Accountants produce reports having inflated figures for use by creditors (banks, etc.)	8	2.5000	0.9276
17	Authorized Accountants produce reports having reduced profit for tax filing purpose	8	2.3750	0.8539

*Source: own computation*

A mean value of less than 3.0 implies that the respondents either disagree or strongly disagree with the assertion. The response pertaining to the individual experience part indicated that professional accountants have the experience of withdrawal or termination for refusing to manipulate figures that suit the client. Similarly, the assertion on this part is negated. The standard deviation for both factors which is less than 1.0 endorses an opinion that is not diverse on the issue.

#### 4.1.3.3 Advocacy Threat

**Table 14: Descriptive statistics of Advocacy threats at profession level**

No.		N	Mean	Standard Deviation
2	Authorized Accountants accept client request for service regardless of experience or professional capacity	9	2.1111	0.7325
8	Authorized Accountants make exaggerated claims about their service to promote their client base	8	1.8750	0.7665

*Source: own computation*

The response to advocacy threat in relation to both issues came up with a mean value of less than 3.0. The response is skewed to the left with a strong position of disagreement to the assertions. Furthermore, a standard deviation of less than one on both counts implies that opinion divergence from the mean value is low. Hence, the surveyed Authorized Accountants do not consider advocacy threat as a serious concern.

#### 4.1.3.4 Self-interest Threat

**Table 15: Descriptive statistics of self-interest threats at profession level**

No.		N	Mean	Standard Deviation
14	Authorized Accountants worry much about losing a client who is a significant source of revenue	9	2.8889	1.0650
15	Authorized Accountants receive gifts from clients regardless of magnitude of the gift	9	2.0000	0.7132
20	Authorized Accountants exercise fee charges dependent on outcome of service (contingent fee)	9	2.5556	1.0200

*Source: own computation*

The mean value which evaluates the presence of a client which is a significant source of income shows a value of 2.8889 and a standard deviation of 1,0650. The mean value which approximates the ideal value of 3.0 indicates the existence of clients as significant source of income but opinions are divergent.

The response to the implication of gifts from clients, having a mean value of 2.0 implies that Authorized Accountants are not used to gifts from clients to the extent of influencing ethical decision making. In addition to this a standard deviation of a value of 0.7132 corroborates that the differences in respondents' opinion regarding the matter is not significant.

The issue of contingent fee as a modus operandi of the profession is not accepted by respondents as evidenced by a mean value of 2.556. However, the respondents have divergent views regarding the matter as revealed by a standard deviation of 1.0200. The interpretation of the responses implies that contingent fee is exercised by professionals when charging for service.

#### 4.1.3.5 Legislative Environment

**Table 16: Descriptive statistics of legislative environment at profession level**

No.		N	Mean	Standard Deviation
4	Absence of regulatory body dedicated to the profession has contributed to the irregularities	9	4.1111	1.6580
5	The new Financial Reporting Proclamation will address some of the irregularities in the profession	9	3.5556	1.3216
7	The establishment of Accounting and Auditing Board of Ethiopia (AABE) will address some of the irregularities in the profession	9	4.0000	1.7568

*Source: own computation*

The serious gap caused by absence of regulatory body that is mandated to oversee the accounting profession and absence of accounting standard that serves as a guideline were among the major culprits for the sluggish growth of the profession in the country.

In this connection, the respondents seem to be positive that the new proclamation and the establishment of AABE will address the irregularities that were a feature of the profession. A mean value of more than 3.0 on all issues indicates a strong expectation from the new developments.

However, the divergence of position as depicted by the standard deviations having a value of greater than 1.0 indicates an awareness gap or a doubt that need to be addressed in due time.

#### 4.1.3.6 Familiarity Threat

**Table 17: Descriptive statistics of familiarity threats at profession level**

No.		N	Mean	Standard Deviation
11	Authorized Accountants engage in the service of reporting entities where they or their immediate families have interest	9	2.2222	0.8824

*Source: own computation*

Familiarity threat hampers integrity, objectivity and the exercise of the principle of professional competence and due care. In this regard, the mean value of the response 2.2222 from the data collected is skewed to the left which implies disagreement to the assertion i.e. Authorized Accountants do not accept the assertion as a modal occurrence in their service engagement. Furthermore, a standard deviation of 0.8824 corroborates that respondents more or less converge on their position regarding the matter.

#### 4.1.3.7 Professional Competence and Due Care

Entry into the profession of public accountancy requires a prerequisite requirement depending on the country's respective laws and regulations. Attaining the requirement and maintaining the requirement are key aspects for up-to-date service to clients and the public at large.

**Table 18: Descriptive statistics of threats to professional competence and due care at profession level**

No.		N	Mean	Standard Deviation
3	Authorized Accountants are frequently engaged in authentication service of reports not produced by them	9	2.4444	0.8064
6	The quality of the reports produced by Authorized Accounts is perceived low by external users	9	2.5556	1.0200
9	Efforts of Authorized Accountants to improve their professional competence is not adequate	8	3.1250	1.3979
10	Authorized Accountants verify potential client's prior history before taking engagement	9	3.1111	1.2063
13	Authorized Accountants give much weight to following the rules than moral values	9	4.0000	1.7568
18	Authorized accountant provide adequate awareness as to the limitation of their service	9	3.1111	1.2063

*Source: own computation*

The response to the first two issues of authentication of reports without due review and the perceived low quality of reports is met with disagreement by respondents with a mean value of 2.4444 and 2.5556 respectively. A standard deviation in the range of 1.0 or less imply that respondents are within similar range i.e. opinion dominated by disagreement / strong disagreement to the assertion and less divergence over the subject.

The mean value, 3.1250, of the response to the question related to continuous professional development shows a value close to 3.0 which indicates acceptance of the weakness of Authorized Accountants in pursuing professional development. This is consistent with the individual experience. However, the position of the respondents is divergent from the mean with a standard deviation of 1.3979.

Similarly the mean value pertaining to verification of clients' compliance history before accepting professional appointment reveals a value concentrated close to the center but diverging with the values surrounding the mean. As a result, verifying clients' compliance history becomes a real concern at it may entail ethical threats in the course of engagement.

The interpretation of the response for question no. 13 implies that professional judgment is subdued by adherence to rules. As a matter of fact, rule based approach was behind the major corporate scandals that took the accounting profession by surprise. Rules can't make provision for every circumstance that may surface. Hence the professional needs to utilize professional judgment in resolving issues that require making a choice. The respondents concur that rule approach is followed at a mean value of 4.000 and a standard deviation of 1.7568.

In the course of professional engagement, Authorized Accountants are expected to discuss the limitation of their services and the reports thereto with the client. Taking the mean value of the response, 3.1111, to this question, it comes to light that the response is concentrated around the mean. Despite having a mean close to 3.0 which is the central value, the standard deviation of 1.2063 tells that respondents differ in the practice of creating awareness as to the limitations of the professional service.

#### 4.1.3.8 Work Environment

**Table 19: Descriptive statistics of threats to work environment at profession level**

No.		N	Mean	Standard Deviation
12	Authorized Accountants do not take into account the situation of internal control in place to make their judgments	9	2.8889	1.0224

*Source: own computation*

The work environment provides a safeguard against threats. The response with a mean value of 2.8889 can be interpreted such that the respondent Authorized Accountants, in most instances, do consider the internal control system in place to base their judgments. Nevertheless, the standard deviation value 1.0224 implies a spread of response from the mean value.

#### 4.1.3.9 Confidentiality

Upholding the confidentiality of information that falls in the hands of the professional as a result of professional appointment is critical. Such information may not be revealed to third parties without the consent of the client or unless required by law.

**Table 20: Descriptive statistics threats to confidentiality**

No.		N	Mean	Standard Deviation
19	Authorized accountant reveal information obtained as a result of their engagement to a third party (friend, family member, etc) without client's consent	9	1.7778	0.8394

*Source: Own computation*

The responses from Authorized Accountants reveal that the risk of disclosure of information which falls in their hands as a result of their engagement is minimal. A mean value of 1.7778 implies a strong disagreement to the assertion forwarded. The mean value coupled with standard deviation of 0.8394 indicates a strong position by the responding Authorized Accountants that confidentiality is not a strong issue within the profession.

#### 4.1.4 Summary of Findings and Analysis – Authorized Accountants

The findings and analysis which are of major concern surrounding Authorized Accountants are summarized into the following main categories

- **Work environment threat:** most of the clients of Authorized Accountants are sole proprietor firms where owner manager or family based management is exercised. In addition to this, clients do not have regular accounting staff in most cases. Such a situation decreases the work environment safeguards.
- **Integrity:** the reports are principally prepared for external consumption. The quality of the reports is considered low even by the admission of the professionals engaged in the service. On the other hand, the reports are principally prepared for external consumption:

tax filing purpose and to meet creditors' request. A low quality report destined for use by external stakeholders is a serious concern.

- **Professional competence and due care:** the professional in public service admits to authenticate reports produced by persons without license (provided that they have acquaintance). Add to this, accepting doubtful transactions for inclusion in reports as well is a major setback for an aspiring profession.
- **Familiarity threat:** due to extended period of engagement is a concern as it reportedly influences decision making.
- **Legislative environment:** legislative environment which is provided externally is a serious issue as per the findings. Non-existence of accounting standard, absence of regulatory body and lack of opportunity for continuous development are identified as the impediment to growth of the profession.
- **Professional environment:** absence of professional qualification tailored to the Ethiopian setting, promotion of self-interest over professional duty and awareness gap as to professional ethics are hurdles on the path of the profession and professionals alike.
- **Self-interest threat:** reduced level of client's compliance history verification, the prevalence of contingent fee and heavy reliance on clients as major source of revenue are issues that need to be addressed.
- **Intimidation threat:** clients may opt to intimidate the professional through various means. As the findings indicate, fair presentation of the reports is ranked lower. In this connection, clients pressurize the professional to make adjustments to reports to suit their desire. Failure to accommodate the request entails termination of engagement or the professional withdraws. This poses a major obstacle for the profession.

## **4.2 Threats to Professional Ethics – Selected Authorized Auditors**

A total of twelve questionnaires were distributed to Authorized Auditors, located in Addis Ababa, using snowballing method. Eight questionnaires were collected (66.7.0% response rate). The questionnaires dealt with threats to professional ethics encountered by Authorized Auditors.

Taking into account the homogeneity of the service, similarity of their exposure and initial difficulty of collecting data, a 66.7.0% response rate is assumed reasonable.

As indicated in the methodology part of the study, survey was the main strategy of inquiry adopted to assess the threats to professional ethics encountered by Authorized Auditors. In this connection, the results obtained from the survey are analyzed using descriptive statistics and frequency distribution. Descriptive measures of the response and the discussions thereto are presented as follows.

#### **4.2.1 Profile of the Selected Authorized Auditors**

The demographic characteristics (annex 2:4) captured background information that consists of gender, educational level, work experience, organizational arrangement of the Authorized Auditor under discussion. Data pertaining to staff size, clients' information, average stay of clients with the Authorized Auditor etc. which attribute to the observance of ethics are also collected.

Coincidentally, all of the respondent Authorized Auditors were male having a professional qualification of ACCA which is the minimum requirement to operate as an auditor in Ethiopia. 77.7% of the respondents have working experience of less than 10 years. Absence of female respondent was a real cavity in the data collection.

When it comes to the organizational arrangement of the Authorized Auditors, 75.0% of the respondents are sole proprietorship which will likely limit the option for peer review of the attest service. Similarly, 62.5% of the respondents have client size of more than 100.

The organizational profile of the clients of Authorized Auditors tilts towards private limited companies followed by sole proprietorship and non-governmental organizations.

The principal type of service provided by Authorized Auditors is assurance service followed by advisory roles. In a similar vein, the reason for seeking the assurance service of Authorized Auditors is mainly for tax filing purpose, followed by the need to meet creditors' request and to a lower extent to utilize the data for performance evaluation purpose. The response obtained from Authorized Auditors is symmetrical to that of Authorized Accountants which indicates that their

service is mainly sought for the consumption of external users. Hence, the quality of the assurance service is of critical importance to stakeholders.

The average stay of clients (using the service of the respondents) between 2 – 4 years is 75.0% while the ones staying between 5 – 7 years is 12.5%. There are also clients with a stay of over 10 years (12.5%). The existence of clients that stay with a given Authorized Auditor for over 10 years requires a caution as an extended professional engagement period would likely increase the exposure to familiarity threat.

To summarize, Authorized Auditors have the professional qualification (ACCA) to render the service. ACCA requires continuous professional development as a prerequisite to maintain the membership. The profile of Authorized Auditors depicts that the predominant form of their organization is sole proprietorship with the majority of their clients being private limited companies followed by sole proprietorship. This is presumed to put a cap on safeguards provided by work environment. Furthermore, Authorized Auditors are mainly engaged to provide the assurance service with client's intention of employing the reports for tax filing purpose and to meet creditors' request. Using the reports for internal performance review is given lesser weight. As a result, the principal users of the reports are external stakeholders. Prolonged engagement with a client calls for adequate safeguards to minimize the ensuing exposure to familiarity threat.

## **4.2.2 Authorized Auditor' Own Experience of Threats**

### **4.2.2.1 Threats to Organizational Environment**

The corporate debacles that have spread across the globe were principally triggered by the works of the top management and the organizational culture in place. Managements' philosophy and leadership is a key ingredient towards upholding ethical values.

Threats to organizational environment can further create an environment of intimidation, where the management pursues its own interest at the expense of stakeholders or users of financial statements.

**Table 21: Descriptive statistics of threats to organizational environment**

	No.	Ranking				
Q.1 Organizational arrangement of clients	8					
Family based		1				
Hired professional		2				
Owner manager		3				
Q.2 Do your clients have accountants handling the regular financial recording activity		Incidence of client having regular staff (taken as a percentage of clients)				
		100%	75%	50%	0%	Don't know
No of respondents	8	1	6	1	0	0
%		12.5	75.0	12.5	0.0	0.0

*Source: own computation*

Where family based organizational arrangement takes precedence over other structured forms of organizations, safeguards provided by work environment becomes loose. The data collected shows client composition which is dominated by family based management.

The response obtained from Authorized Auditors reveals that only 12.5% respondents are engaged with clients having a regular accounting staff all the time. The other respondents, 75%, are engaged with clients having regular accounting staff in 75% of the cases followed by clients having regular accounting staff in 50.0% of the engagement (12.5%). In such instances Authorized Auditors will encounter an environment where the professional assistance from the accountant is missing.

#### **4.2.2.2 Threats to Professional Competence and Due care**

Professional competence and due care is considered the core of the fundamental principles of ethics. It demands not only attainment of professional knowledge and skill but a continuing duty to maintain the knowledge and skill at the level required to ensure that a client receives competent

professional service. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

**Table 22: Descriptive statistics of threats to professional competence and due care**

	N	Yes	No
Q.11 Do you provide assurance service for financial statements prepared by accountants not regular employees of the reporting entity and working without license (provided that you know them)	8	5	3
%	100	62.5	37.5
Q.12 Do you provide assurance service for financial statements prepared by accountants not regular employees of the reporting entity and working without license (even if you don't know them)	8	4	4
%	100	50.0	50.0
Q.13 Do you accept transactions which are doubtful but are legal?	7	4	3
%	100	57.1	42.9

*Source: own computation*

“Accountants” who are not regular staff of the client and working without license pose a major challenge to the profession in Ethiopia. As these people do not meet the minimum requirement (academic qualification, experience and testimonials) to have the license, they operate outside the confines of the law. As the response to Q.11 shows, Authorized Auditors provide assurance service (62.5%) for reports prepared by accountants not authorized to produce reports provided they have acquaintances.

The response to Q.12 reveals that Authorized Auditors provide the assurance service for reports prepared by accountants operating outside the legal confines even if they don't have prior acquaintances (50.0%).

“Accountants” working without license and not regular staff of the client are likely to lack the basic competence to carry-out the task and the possibility that they may succumb to pressure from

management (intimidation) is very high. The practice of providing assurance service for reports prepared under such situation is questionable.

Going by the rule book is safe in the event of professional legal liability but from the perspective of a profession which has a public responsibility, it may not be justifiable. The profession requires more than adherence to the rule books. The response to question no. 13 is split into two i.e. between Authorized Auditors who accept doubtful but legal transaction, 57.1% and those who don't 42.9%. This is an area of serious concern.

#### 4.2.2.3 Threats to Safeguards by Legislative Environment

Legislative environment provides the ground for the standards, codes of practice and monitoring the accounting profession. At the core of accounting is public trust and responsibility. Legislative environment is enabler to the profession.

**Table 23: Descriptive statistics of threats to safeguards by legislative environment**

	N	Ranking	
Q.5 In your view what are the major threats to professional ethics at macro level	8		
• Absence of regulatory body		1	
• Lack of professional development opportunity		2	
• Absence of accounting standard		3	
Q.17 Do you think there are irregularities, on the part of law enforcement bodies in the application of laws and regulations pertaining to the profession?	N	Yes	No
No of respondents	8	7	1
%	100	87.5	12.5

*Source: own computation*

Authorized Auditors consider absence of regulatory body to be the most serious challenge within the legislative environment followed by lack of professional development opportunity and absence of accounting standard. This is consistent with the discussion in the literature review part which highlighted the concern of ownership of the profession in the country.

The replies to question no. 17 are reflections of the absence of regulatory body dealing mainly with the profession where the prevalence of irregularities is attested by 87.5% of respondents. The findings are consistent with the overall setting of the profession in Ethiopia.

#### 4.2.2.4 Threats to Integrity

The concept of professional integrity requires the professional not to be associated with reports, returns or communications which are materially false or misleading.

**Table 24: Descriptive Statistics of Threats to Integrity**

Q.3 Do you think financial statements submitted to stakeholders are fair presentation of facts of reporting entity	Incidence of financial statements submitted being fair representation of facts (taken as a percentage of clients)					
		100%	75%	50%	0%	Don't know
No. of respondents	8	2	3	3	0	0
%		25.0	37.5	37.5	0.0	0

*Source: own computation*

The survey question was meant to address the extent to which Authorized Auditors are confident that the reports which are given assurance service by them represent the fair presentation of the facts surrounding the reporting entities. The response revealed that only 25% of the respondent asserted that in 100% of the instances (all the reports produced) to be fair representation. While an alarming number of respondents 37.5% consider that 75% of the cases are fair representations of the facts of the reporting entity while an equal proportion of respondents consider the reports to be fair presentation in 50% of the cases.

Although presented differently, the findings are consistent with the report of ROSC (2007) which indicates lower acceptance of financial reports by users and stakeholders.

#### 4.2.2.5 Threats to Objectivity

Objectivity pertains to the ability to withstand bias, conflict of interest or succumbing to influences in business judgment. The stories behind major corporate scandals show that clients' interest took precedence above the public interest.

**Table 25: Descriptive statistics of threats to objectivity**

	<b>N</b>	<b>Ranking</b>
Q.7 As an Authorized Auditor, what do you think is your primary responsibility?	8	
• Public interest		1
• Users' interest		2
Q.8 When faced with choices of decisions, you base your decision on		
• Professional ethics		1
• Your judgment		2

*Source: own computation*

The data collected from respondents with respect to the primary responsibility of Authorized Auditors shows they acknowledge their public responsibility by ranking public interest as their prime concern and professional ethics as a guideline to base their decision. This is in line with the code of practice as dictated by their professional membership.

#### 4.2.2.6 Threats to safeguards by Professional Environment

The professional environment provides safeguards by way of professional standards, education, training or experience required for entry into the profession. In this connection, professional qualification of ACCA / CPA and an experience as an auditor is requisite criteria to join the service of Authorized Auditors.

**Table 26: Descriptive statistics of threats to safeguards by professional environment**

	<b>N</b>	<b>Ranking</b>
Q.6 In your view what are the major threats to professional ethics at individual auditor level	8	
• Promotion of self-interest over professional duty		1
• Influence of clients		2
• Lack of awareness of professional ethics		2

*Source: own computation*

The response to the major threats to professional ethics at individual auditor level ranked promotion of self-interest over professional duty followed by influence of clients and lack of awareness of professional ethics.

The findings are consistent with the auditor’s dilemma between the “guardian” and “commercial” responsibilities. Resolving the dilemma in the best interest of the public remains a serious challenge as depicted in the summary of responses.

The other threat ranked 2<sup>nd</sup> are influence of clients (intimidation threat) and lack of awareness of professional ethics. Since all Authorized Auditors are members of ACCA, lack of awareness of professional ethics does not seem justified as they are required to go through a serious of lessons and sessions of professional ethics.

**4.2.2.7 Self-interest Threat**

Self interest threat is manifested when the commercial interest intervene with that of the public interest.

**Table 27: Descriptive statistics of self-interest threats**

	N	Yes	No
Q.9 Before taking an engagement with a client do you check the client's background (compliance history)	8	7	1
%	100	87.5	12.5
Q.10 Before taking an engagement with a client do you check financial reports prepared before you were commissioned to the task	8	8	0
%	100	100.0	11.1
Q.18 Have you ever used information obtained, as a result of your engagement to negotiate fee?	8	2	6
%	100	25.0	75.0
Q.20 Do you have clients which you consider are too important as a source of your revenue?	8	2	6
%	100	25.0	75.0

*Source: own computation*

One of the safeguards to protect against undue exposure to professional liability is verification of potential clients' compliance history and the nature of business they are engaged in, etc. before taking professional appointment. The responses to question no. 8 and 10 which were intended to address the practice of verifying clients' profile indicate that 87.5% do check compliance history while 100% do the same with regard to previous reports.

The issue of contingent fee which depends on outcome of results, unless fixed by a third party, creates conducive ground for self-interest threat or advocacy threat on the side of the auditor while it may also be used as an intimidation threat by the client. In this regard, the response shows that 25.0% of respondents use the information obtained as a result of their appointment / engagement to negotiate fee.

The existence of a client which is considered too important as a source of revenue makes the professional vulnerable to pressures and intimidation. The case of Arthur Anderson is a case in point where Enron, as the major source of revenue, managed to force bending of values to its own interest. Revenue dependence signifies major implication. In this connection, 25.0% of the respondents reveal the existence of a client which is too important as a source of revenue. Such heavy dependence on a client is likely to create threats to objectivity and or self-interest threats.

#### 4.2.2.8 Familiarity Threat

Familiarity with a client can be established through family connection, extended engagement or through gifts or preferential treatment from a client. Familiarity threat interferes with objectivity, professional competence and due care and professional behavior.

**Table 28: Descriptive statistics of Familiarity threats**

	<b>N</b>	<b>Yes</b>	<b>No</b>
Q.19 Do you think a relationship with a client (friendship, family, long standing service, etc.) influences your approach to the task?	8	1	7
%	100	12.5	87.5
Q.21 Have you ever sympathized a client's position (financial distress, damages to property, etc.) to base some of your decisions?	8	3	5
%	100	37.5	62.5

*Source: own computation*

The theoretical argument (IFRS code of ethics) cautions that long association or family relationship imposes a familiarity threat unless safeguards are put in place. Consistent with the theoretical argument, 12.5% of respondents agree that familiarity threat influences their approach to the task implying a challenge to objectivity and professional due care.

In a parallel vein, respondents were asked whether they would sympathize with a client having one or another form of distress. The response indicates that 37.5% would sympathize with the client in their decision-making.

This is a serious concern, in the Ethiopian context, taking into account the fact that financial reports are principally prepared for external users' consumption (as per the findings of this study).

#### 4.2.2.9 Intimidation Threat

Intimidation threat may manifest in various forms. Among them is a threat to terminate or discontinue engagement, litigation threats and a pressure to reduce the quality of the report through reduction of extent of work or reduced fee.

**Table 29: Descriptive statistics of Intimidation threats**

	<b>N</b>	<b>Ranking</b>	
Q.4 In your experience, clients are primarily concerned with	8		
• Exaggerating expenses			1
• Fair presentation of facts			2
• Increasing profit			2
• Understating inventory			3
Q.14 Were there circumstances / cases where managers or owners approached you to adjust audit opinion (in their favour)	<b>N</b>	<b>Yes</b>	<b>No</b>
No. of respondents	8	6	2
%	100	75.0	25.0
Q.15 Were there circumstances where your engagement contracts were terminated for refusing a pressure from client?	<b>N</b>	<b>Yes</b>	<b>No</b>
No. of respondents	8	4	4
%	100	50.0	50.0
Q.16 Have you withdrawn from an engagement due to perceived threat to your professional judgment?	<b>N</b>	<b>Yes</b>	<b>No</b>
No. of respondents	8	4	4
%	100	50.0	50.0

*Source: own computation*

In the discussion pertaining to fair presentation of financial reports which are free from materially false or misleading information, question no. 4 was included in the questionnaire. The response indicates that major segment of the clients are interested in exaggerating expenses. Those clients concerned with fair presentation of facts are ranked a distant second. Taking into account the external orientation of the financial reports, the findings call for an urgent attention to the matter.

The response to question number 14 further corroborates that the management of reporting entities exerts pressure (of various kinds) to alter the audit opinions, thus, interfering in the auditor's independence. This is confirmed by a 75% response rate as having been approached to make modifications or changes to the audit opinions.

This is further strengthened by the fact that 50.0% of the respondents had to withdraw from their engagement owing to perceived threat to their profession and independence. This is a significant threat and concern for the profession.

The intimidation threat encountered by Auditors finds its symmetry with that of Authorized Accountants. Since both Authorized Auditors and Authorized Accountants more or less share clients in the same market, the findings are consistent to both profession's encounter in actual experience.

#### **4.2.3 Authorized Auditor' Perception of Threats to the Profession**

This part of the analysis pertains to Authorized Auditor' overall perception towards the practice of external auditors and threats thereto. The previous chapter dealt with respondents' own experience. This part is intended to validate the responses obtained at individual level with that of the perception at the profession level.

#### 4.2.3.1 Intimidation Threat

**Table 30: Descriptive statistics of Intimidation threats at profession level**

No.		N	Mean	Standard Deviation
1	Clients pressurize Authorized Auditors to modify opinions (usually for clean reports) despite the facts	8	3.5000	1.6272

*Source: own computation*

The finding reveals that threat of intimidation at professional level is consistent with the individual auditor perception. The mean value of 3.5 indicates the existence of pressure. However, the opinion is diverse as evidenced by a standard deviation value of 1.6272. This indicates that the working environment in which Authorized Auditors provide the assurance service exerts undue pressure i.e. most of the respondents acknowledge the prevalence of influence from clients.

#### 4.2.3.2 Threat to Integrity

**Table 31: Descriptive statistics of Integrity threats at profession level**

No.		N	Mean	Standard Deviation
2	There are instances where Authorized Auditors produce reports without the assessment of facts	8	3.0000	1.1402
15	Authorized Auditors provide second opinion on their own or works of other auditors	7	2.5714	1.0842
17	Authorized Auditors accommodate clients' pressure to reduce extent of work to meet time constraints	8	2.7500	1.0083

*Source: own computation*

The response to question no. 2 converges around the mean value of 3.000 where the practice of releasing reports without due assessment is addressed. The interpretation of the response indicates the existence of the practice in the profession.

For assertions number 15 and 17, a mean value of less than 3.0 implies that the respondents either disagree or strongly disagree with the assertion. The response pertaining to the individual experience part indicated that the respondents have experiences where they have withdrawn from an engagement due to perceived threat. The standard deviation for both factors which is about 1.0 endorses an opinion that is not diverse on the issue.

#### 4.2.3.3 Self-interest Threat

**Table 32: Descriptive statistics of self interest threats at profession level**

No.		N	Mean	Standard Deviation
10	Audit fees are agreed upon before taking an engagement	8	4.3750	1.7970
13	There are instances where Authorized Auditors engage in the accounting and assurance service of a given reporting entity	8	2.6250	1.000
18	Authorized Accountants exercise fee charges dependent on outcome of service (contingent fee)	8	2.5000	0.9443

*Source: own computation*

The issue of contingent fee is not a serious concern as the responses to assertion number 10 and 18 depict. However, the mere existence of contingent fee shall be addressed for the wellbeing of the profession.

Authorized Auditors engaged in accounting services is a serious compromise of independence, quality, integrity and self-interest issues. Although declined by the majority of respondents again it is a concern of priority order.

#### 4.2.3.4 Legislative Environment

**Table 33: Descriptive statistics of legislative environment threats at profession level**

No.		N	Mean	Standard Deviation
4	Absence of regulatory body dedicated to the profession has contributed to irregularities	8	3.8750	1.5626
5	The new Financial Reporting Proclamation will address some of the irregularities in the profession	8	3.7500	1.5186
7	The establishment of Accounting and Auditing Board of Ethiopia (AABE) will address some of the irregularities in the profession	8	4.0000	1.7242

*Source: own computation*

As discussed in the literature review and the analysis of the responses from Authorized Accountants, findings here also point to the serious gap that prevailed surrounding the accountancy profession and the high hopes for the changes underway.

#### 4.2.3.5 Familiarity Threat

**Table 34: Descriptive statistics of familiarity threats at profession level**

No.		N	Mean	Standard Deviation
11	Authorized Auditors engage in assurance service of reporting entities where they or their immediate families have interest	8	2.2500	0.8551

*Source: own computation*

Familiarity threat hampers integrity, objectivity and the exercise of professional competence and due care. In this regard, the mean value of the response 2.2500 from the data collected is skewed to the left which implies disagreement to the assertion i.e. Authorized Auditors, for the most part, do not engage in the assurance service of a client where an immediate family has interest.

Furthermore, a standard deviation of 0.8551 corroborates that respondents more or less converge on their position regarding the matter.

#### 4.2.3.6 Professional Competence and Due Care

Professional competence and due care is at the core of the fundamental principles of ethical conduct.

**Table 35: Descriptive statistics of professional competence and due care at profession level**

No.		N	Mean	Standard Deviation
3	The practice of self-review is very low among Authorized Auditors with respect to clients' books of accounts	8	3.6250	1.3617
6	The quality of the reports produced by Authorized Auditors is perceived low by external users	8	3.0000	1.1402
8	Tender based competition for audit services have influence on quality of output	8	4.0000	1.5138
9	The practice of checking previous compliance history of a potential client is low among Authorized Auditors	8	3.6250	1.5425
12	Authorized Auditors do not take into account the situation of internal control in place to make their judgments	8	3.5714	1.5925
14	There is noticeable competence gap between Authorized Auditors and staff	8	2.6250	1.0000

*Source: own computation*

The response to the first two issues of self-review and the perceived low quality of reports is having a mean value of more than 3.0 coupled with a standard deviation of greater than 1.0 imply that respondents are within similar range i.e. opinion dominated neutral to agreement / strong disagreement over the issues.

Similarly the mean value pertaining to verification of clients' compliance history before accepting professional appointment reveals a value concentrated close to the center but diverging with the values surrounding the mean. The result is not consistent with the auditors own experience i.e. respondent authorized auditors do consider that there is low client verification process within the profession.

The interpretation of the response for assertion no. 14 implies that Authorized Auditors do not accept the proposition that there is noticeable gap between professionally certified auditors and staff.

#### 4.2.3.7 Work Environment

**Table 36: Descriptive statistics of work environment threat at profession level**

No.		N	Mean	Standard Deviation
12	Authorized Auditors do not take into account the situation of internal control in place to make their judgments	8	2.5000	0.9443

*Source: own computation*

The work environment provides a safeguard against threats. The response with a mean value of 2.5000 can be interpreted such that the respondent Authorized Auditors, in most instances, do consider the internal control system in place to base their judgments. Nevertheless, the standard deviation value 0.9443 implies data dispersion concentrated around the mean value.

#### 4.2.3.8 Summary of Findings and Analysis – Authorized Auditors

The result of findings which are considered significant are summarized into the following main categories

- **Work environment threat:** most of the clients of Authorized Auditors are private limited companies followed by sole proprietor firms where owner manager or family based management is the dominant form. In addition to this, clients do not have regular

accounting staff in all cases. Such a situation diminishes the work environment safeguards.

- **Integrity:** the quality of the reports is considered low even by the admission of the respondent auditors. The reports, however, are principally prepared for external consumption: tax filing purpose and to meet creditors' request. A low quality report destined for use by external stakeholders is a serious concern. Furthermore, tender based competition for service, taking price as major criteria, affects the quality of the report.
- **Professional competence and due care:** respondent authorized auditors confessed to the fact that they provide assurance service for reports prepared by persons without license. Add to this, accepting doubtful transactions for inclusion in reports as well is a major setback for an aspiring profession. The practice of self-review is found to be low as well.
- **Familiarity threat:** extended period of engagement is a concern as it reportedly influences objectivity in decision making.
- **Legislative environment:** absence of regulatory body and limited opportunity for continuous development are identified as the impediment to growth of the profession.
- **Self-interest threat:** promotion of self-interest over professional duty, inadequate client compliance history verification, prevalence of contingent fee and the existence of clients who are too important as a source of revenue are issues that need to be addressed.
- **Intimidation threat:** clients may opt to intimidate the professional through various means. As the findings indicate, fair presentation of the reports is ranked lower from the perspective of the client. In this connection clients pressurize the professional for clean reports. Failure to accommodate the request entails termination of engagement or the professional withdraws. This poses a major obstacle for the profession.

### **4.3 Bankers' Perception of Professional Ethics**

Twelve questionnaires were distributed to bankers working in different banks, of which ten were collected (83.3%). All the respondents have either first degree or above having a modal banking

experience of between six to ten years. On their gender composition three of the respondents were females.

With regard to the quality of reports 80% of the respondents believe that the reports they receive are fair only in 50% of the instances. They frequently encounter reports having exaggerated profits and inflated balances of accounts receivable. The desire of the clients is to make better impression.

The respondent bankers attribute the irregularities to absence of regulatory body, frequency of changes in the regulation, influence of clients on the professionals and to promotion of self-interest over professional duty. As a result of the foregoing facts, bankers tend to base their decision on the basis of their relationship with the clients rather than the reports.

The findings pertaining to quality of reports are consistent with that of the Authorized accountants and Auditors. The low perception of quality which is admitted by the professionals is corroborated by responses from the bankers.

#### **4.4 Tax Auditors' Perception of Professional Ethics**

From the twelve questionnaires distributed to tax auditors (ERCA) six were collected (50.0%). All the respondents have first degree. 66.7% have less than five years experience as tax auditor while the remaining have between six to ten years. Two of the respondents were females.

In their response pertaining to the quality of reports they receive, only 50% of the respondents believe the reports to be fair in 50% of the instances. They frequently encounter reports having exaggerated expenses with the intention to reduce profit tax payable.

The participant tax auditors consider that absence of continuous professional development, frequency of changes in the regulation and to absence of regulatory body, influence of clients as the major factors behind the irregularities. Owing to these encounters, the tax auditors consider the reports as having low quality. However, they are also observing a noted improvement over the years.

The low quality perception of reports which indicate irregularities in the profession are aligned with data collected the professionals in public service.

## 4.5 Key Informant Interview on Professional Ethics

Two key informants were selected for the interview on the basis of their years of experience with Ethiopian Professional Association of Accountants and Auditors (EPAAA) and Accounting Society of Ethiopia (ASE).

A structured interview was applied to carry the interview. The interview revealed the existence of lapse in upholding ethical values among professionals. The contributing factors for the wide spread lapses at the profession and individual practitioner level are discussed as follows

At a profession level, absence of regulatory body and accounting standards paved the way for a loose ground to enforce quality. From the perspective of the association, despite its age (EPAAA), it has low membership base which was voluntary until recently. On top of this, there is a tendency for proliferation of association which further dilutes the membership bases: EAFA, ACCA, ASE, EAA and EPAAA.

On the international scale, there is a growing need to join IFAC and other regional professional associations. IFAC membership allows access to professional support and assistance. However, meeting the entry requirements is found to be a challenge.

At individual professional level, self – interest over the discipline, absence of regulatory and monitoring framework and knowledge gap (maintaining and keeping abreast of current developments in the profession) are serious factors to contend with. There are instances where individuals are engaged in reckless practices nicknamed “Briefcase Auditors and Accountants”. The existence of rampant malpractices is disrepute for the profession. Owing to this the image of the profession as an ethical discipline is very low.

As a positive note, the promulgation of the financial reporting proclamation by itself is considered as a big success. As the proclamation provides for accounting standard and establishment of regulatory body which were absent until now.

Furthermore, encouraging developments with respect to the profession are banks' insistence for audited financial statements, ERCA's imposition of financial statements to be prepared by authorized accountants, ECX's requirement of members for audited statements, National Banks' directive for financial institution and Charities agency's requirement of audited financial statements from NGOs.

The discussion with the two key informant reveals a wide spread malpractices among professionals but underscores the hopes attached to the current legislative developments in the country.

## 4.6 Summary of Findings

Threats to professional ethics in the case of Authorized Accountants and Auditors were evaluated against the theoretical circumstances that create threats which would eventually compromise compliance to fundamental principles of ethics.

**Self-interest threat:** Authorized accountants and Auditors are found to be exposed to self-interest threat due to the fact that there are clients which are too important source of revenue. Add to this, the practice of contingent fee (which depends on the outcome of the engagement) also creates a loophole for self-interest threat and intimidation.

In the global context, the fate of Arthur Anderson (one of the big five audit firms) was doomed due to self-interest threat where Enron was a big source of income. Hence, the management at Arthur Anderson was not ready to sacrifice the revenue.

**Self-review threat:** In the Ethiopian context the findings indicate that Authorized Accountants and Auditors have prolonged engagement with a client. Moreover, absence of accounting staff on the client side forces the service providers to render advisory role in the regular accounting works and tax purposes.

Such wide scope engagement dilutes the watchdog role of accountants and auditors. The empirical findings on the global scale as well corroborate to the fact such services are the

major revenue earners for the accounting and audit firms. Such a mix-up in the roles of professionals has led to numerous corporate failures.

**Intimidation threat:** Intimidation threat appears to be the most pervasive challenge both Authorized Accountants and Auditors encounter. The intimidation which is manifested in the form of a pressure to manipulate the figures in the books accounts to a request for changes of audit opinions. Authorized Accountants and Auditors who resisted such pressures have either to withdraw or be terminated from engagement by the client. In the Ethiopian perspective, the financial reports are usually geared for external consumption (finding). Misleading figures contained in the reports would definitely have adverse effects on the users of the reports.

Globally, management culture (tone at the top) and the short term market value maximization agendas have put undue pressure on the shoulders of the professionals. Add to this, benefit schemes attached to short term performance indicators have pushed the management to the limit of the legal boundary.

**Familiarity threat:** family based relation of engagement does not seem to be the main factor behind familiarity threat rather prolonged engagement is a concern. There is no legal limit as the extent to engagement for a condition for self-review. Moreover, the commercial aspect comes into play here. A service provider is unlikely to abandon a client unless safeguards are put in place. These scenarios create conducive ground for bias.

On the basis of empirical studies pertaining to corporate failure, the major reasons identified were intermixed business relationship and management structures that allowed unchecked familiarity threat.

**Threats to professional competence and due care:** the prevalence of authentication service for financial statements prepared by unauthorized persons and acceptance of doubtful transactions is found to be a major issue that compromises integrity and quality of reports. “Brief case accountants and auditors” who just affix stamps without due

evaluation is the extreme expression of the seriousness of the situation on the ground. This is a unique feature to the Ethiopian context. The opportunity to work without license and due qualification can be traced back to the vacuum in the legislative environment which is discussed separately.

**Threats to integrity:** this study found out that intimidation is a serious threat. Where intimidation is high the challenge to maintain integrity becomes more arduous. Authorized Accountants and Auditors operate in an environment where maintaining integrity is a serious challenge. As a result of this, the finding indicates that the financial statements do not fairly represent the situation / status of the reporting entity. This is admitted by Authorized Accountants and Auditors. Furthermore, principal users of the statements as well indicated that they do not rely on the reports.

Accounting has lost its prestige and respect due to misleading statements and reports that led to loss of millions of dollars by the investing public.

**Safeguards by work environment:** the dominant mode of business organizations are family owned and run by owner manager. Absence of structured internal control system, policies and procedures create loose grounds. The safeguards that were supposed to be provided by the work environment are lacking. Hence, the professional is subject to intimidation, extended scope of work and the likes.

It should, however, be noted that work environment alone does not provide safeguards unless it is championed by the top management. From empirical evidences, it is learnt that the tone at the top sets the pattern for ethical engagement.

**Safeguards by legislative environment:** the accounting profession was a foster child in the Ethiopian context. There was no specifically designated body that regulates, monitors or disciplines the professional. This was compounded with the absence of accounting standard adopted at national level. Absence of strong professional body or association was another hole. The combined effect of all this was irregularities prevailed; unauthorized

(not qualified) persons were engaged in the service with a corresponding authentication by the Authorized professionals.

In the countries where the profession is regulated by designated body and the professional associations are strong rampant violations are disciplined as they arise. Cognizant of this vacuum, the Ethiopian government has recently promulgated for the adoption of IFRS and established a national regulatory body – Accounting and Auditing Board of Ethiopia (AABE)

# CHAPTER FIVE

## CONCLUSION AND RECOMMENDATION

### **Introduction**

Chapter five dwells on conclusions and recommendations of the study based on the actual findings of the research. The conclusion part strictly follows the findings while the recommendations were put forward taking into account the underlying changes in the legislative environment. There are urgent matters that seem to be addressed in order to promote the profession and live-up to expectation.

### **Summary and Conclusion**

The study examined the threats to professional ethics among Authorized Accountants and Authorized Auditors in public service. The research questions were meant to address the existence of threats to professional ethics. The first research question was geared to identify the significant threats to professional ethics encountered by Authorized Accountants and Auditors. The second research question was focused on identifying the characteristics of client – professional relationship. Third one referred to the legislative environment and its bearings on adherence to professional ethics. The fourth research question dealt with the experiences of work environment threats by Authorized Accountants and Auditors, while the final research questions tried to draw relationship between empirical findings and the Ethiopian contexts.

The study employed survey method to collect data. Self-administered questionnaires were distributed to Authorized Accountants and Authorized Auditors using snowballing technique. Similarly, self-administered questionnaires were distributed to bankers and tax auditors who were identified as prime users of financial reports. The data from the primary users was also used to triangulate the one from Authorized Accountants and Auditors. Key informant interview was included in data collection with the objective of enriching the data. This case study which went for

depth and breadth of analysis employed descriptive statistics to make analysis and draw conclusions.

The accounting profession went through ups and downs following changes in state ideologies over the past forty years. The changes had their impacts on the profession. To be of relevance, the accounting profession has to keep pace with the fundamental changes taking place in the country. In tune with these changes, the quality of reports has to live up to expectation with due regard to adherence to professional ethics and code of conduct.

The paper addressed a wide array of issues pertaining to threats to professional ethics: self-interest, self-review, advocacy, familiarity and intimidation. Threats to the fundamental pillars of ethics: integrity, objectivity, professional competence and due care, professional behavior and confidentiality were addressed. Add to this, issues that have ramification on threats and bearings on observance to pillars of ethics were also considered. Finally, safeguards provided by work environment, legislative environment and profession were also included to answer the research questions.

The study finding revealed that legislative environment which is composed of regulatory body, accounting standards and monitoring as a serious gap. Absence of the regulatory framework was the most serious concern for all respondents. In consideration of these facts and the concerted efforts of various stakeholders, the financial reporting proclamation is promulgated. The proclamation by itself is reckoned a success. Now that proclamation which provides for the establishment of regulatory body and adoption of IFRS is promulgated, the concern with regard to this issue needs to be eased in the coming periods. However, rules and regulations by themselves are not ends with respect to professional ethics. Empirical evidences show that countries which had elaborate regulation and monitoring system have not been spared from failures of professional ethics or compromises.

The work area environment and intimidation threats are found to be of grave magnitude. The work area environment which sets the tone for ethical values is compromised due to the organizational

arrangement of client which lack segregation of duties (owner manager and family based management being dominant forms).

The intimidation threat is explained by the magnitude of pressures applied by clients on the professionals for reports that suit their need. The professionals encountered termination of engagement for refusing to comply with the pressure or had to withdraw from engagement. The incidences are experienced by higher rate of respondent professionals.

Familiarity threat which has a bearing on objectivity, professional competence and due care is manifested in the form of extended period of engagement with a given client. Familiarity is found to influence decision making by professionals.

The wide transgression of professional competence and due care is expressed in the form of authentication and assurance services for reports prepared by unauthorized bodies. Endorsing reports produced by unauthorized bodies that operate without due qualification or experience will have ramification on quality, objectivity and professional behavior. Absence of opportunity for continuous professional development is raised as a factor behind certain lapses in professional behavior.

Having clients who are important source of revenue is likely to have bearing on intimidation and advocacy threats. Losing an important client which generates major revenue is likely to stretch the professional between the commercial and public interest dilemma.

As admitted by the respondents, the reports prepared have external orientation. They are primarily intended for tax filing purpose followed by creditor's request. The quality of reports is perceived low even by the admission of the professionals. The primary users as well consider the reports to be of low quality. Taking into account the external orientation of the reports, the quality aspect becomes a high priority issue. The factors attributing to the low quality could be numerous. Notwithstanding the circumstances, a misleading or misstated report implies a compromise of integrity.

In conclusion, professional ethics is exposed to threats imposed externally by the legislative environment, work environment and intimidation threats and the promotion of self-interest over and above professional responsibility by the professionals.

### **Implications**

The study depicts lapses in observance of professional ethics. Accounting is all about public trust and responsibility. In this regard, the accounting profession is perceived low in Ethiopia. However, certain legal requirements and users' insistence have brought about an improvement in the recognition of the profession.

The professionals are the principal beneficiaries from the improvement in recognition. In parallel, the users of the reports as well benefit from a professional service of the required level. Unless, the professionals, professional associations, regulatory bodies and users exert a synchronized effort to address the malpractices, the prospects of positive improvements will remain distant.

### **Recommendation**

- The Work environment is a serious threat to maintain professional ethics as most of the clients are either owner managed or family based. Hence, Authorized Accountants and Auditors should encourage segregation of duties and responsibilities within the client firm.
- Intimidation threat is expressed in the form of undue pressure for change of facts in favour of the client needs adequate protection from regulatory and monitoring bodies. The new regulatory body should install the practice of written contracts which depict scope and terms of service before engagement.
- Professional competence and due care is compromised due to authentication of reports without close supervision and due review. There needs to be a stringent control and assessment of quality of reports and corresponding corrective measures on those violating.

- Authorized Accountants and Auditors need to introduce a work arrangement whereby a task performed by one is reviewed by a peer. A tracing mechanism that ensures peer review shall be a mandatory requirement among professionals providing public service.
- Familiarity threat can be reduced by putting a legal cap on the number of years a professional is engaged with a client or a pause in the service sequence to allow introduction of another professional in the service.
- Low quality reports defeat the whole purpose the reports and harm the interest of users. The new regulatory body should come up with a mechanism to address grievances of financial statement users pertaining to low quality reports. Moreover, guidelines with regard to disciplinary transgressions need to be issued from the outset to deter malpractices.
- The legislative environment which is expressed in terms of accounting standard and regulatory body seems to be fulfilled. Hence, there is much expectation from AABE with regard to regulating and monitoring the profession. It needs to draw a roadmap that governs the profession with participation from professionals, the academia, professional associations and stakeholders.
- The practice of contingent fee and existence of heavy reliance on given clients as a source of income has adverse ramifications on professional ethics. Therefore, the strict enforcement of binding contractual agreement the states the scope and amount of fee shall be enforced with immediate effect.
- Professional associations need to take charge of their members to rein in the rampant malpractices and protect the profession and the public.
- Continuous professional development is acknowledged as a major issue to uphold the principle of professional competence and due care. A professional qualification program tailored to the Ethiopian context is worth pondering.
- The heavy reliance on rules instead of principles and valued judgments will leave room for creative accounting and the ensuing confidence crisis on the reports. Hence, principles based approach need to be promoted with due regard to the rules.

### **Future Research Areas**

Ethics and ethical decision making involves psychological decision making process. Conducting such a study at a higher level could bring other dimensions of professional ethics to light.

This study is a pilot study. A study that involves higher number of participants would definitely bring additional dimension to threats to professional ethics for the benefit of the profession. Another study could be assessment of the impact of lapses in professional ethics on users.

A case study approach, based on scenarios, is widely practiced. It would add to knowledge, if one takes study on ethics using scenarios suited to the Ethiopian context.

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**Dear participant**

This questionnaire is addressed to Authorized Accountants. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study on *Challenges and Threats to Professional Ethics: A case of Authorized Accountants and Authorized Auditors in Ethiopia*.

This questionnaire consists of four sections: Section I deals with the general profile of the respondent, section II covers the respondent's perceptions of ethical issues, section III draws ethical issues surrounding Authorized Accountants, and section IV addresses issues that require narrative discussion of the respondent.

Dear respondent, your participation is voluntary. Information collected through this medium is used for academic purpose only and will be kept confidential. Respondent's identity will not be revealed to other parties. Your genuine involvement and kind support is regarded as a great input to the quality of the research results

Thank you very much for sharing your invaluable experience and time in completing the questionnaire.

**Section I: General Information of Respondent**

Please kindly tick (√) your answer in the appropriate boxes

1. Gender:       Female       Male

2. Academic level:

BA       MBA/MSc/MA       PhD       Other: Specify \_\_\_\_\_

3. Work Experience as Authorized Accountant

Less than 5 years     6 to 10 years     11 to 15 years     16 to 20 years     Over 20 years

4. Form of Organization (your service company)

Sole Proprietorship     PLC       Partnership       Other: Specify \_\_\_\_\_

If partnership or PLC, number of partners / shareholders: \_\_\_\_\_

5. Number of employees:

Professional staff: \_\_\_\_\_ Support staff: \_\_\_\_\_

6. Client size

1-25     26-50     51-75     76-100     > 100

7. Type of business form of clients (in the order of number of clients, rank from 1 to 5)

Sole Proprietorship     PLC     NGO     Share Co.     Other: Specify \_\_\_\_\_

8. Type of service provided to clients (in the order of significance, rank from 1 to 5)

Annual /interim financial statements     Valuation     Monthly / quarterly tax returns  
 Advisory service     Sub-contract the accounting activity     Other: Specify \_\_\_\_\_

9. The reason for seeking your service (in the order of importance, rank from 1 to 5)

Tax filing purpose     Creditors' request     Internal performance / status review  
 Legal / court cases     Other: Specify \_\_\_\_\_

10. Average stay of a client using your service

1 year     2 - 4 years     5 - 7 years     8 - 10 years     Over 10 years

11. The types of financial reports most frequently prepared (in the order of importance, rank from 1 to 3)

Profit & loss and balance sheet     Profit & loss, balance sheet, cash flow, statement of changes in equity and schedules     Other: Specify \_\_\_\_\_

## Section II: respondent's perception

1. Organizational arrangement of your clients (in the order of frequency, rank from 1 to 5)

Family based     Owner manager     Hired professionals     Structured along organizational line  
 Structured along organizational line and having Board of Directors

2. Do your clients have "accountants" handling the regular financial recording activities

All the time     75% the cases     50% the cases     Not at all     Don't know

3. Do you think that the financial statements submitted to stakeholders are fair presentation of facts of the reporting entity?

All the time     75% the cases     50% the cases:     Not at all     Don't know

4. In your experience, clients are primarily concerned with
- Increasing profit    Exaggerating expenses    Understating inventory    Fair presentation of facts    Other: Specify \_\_\_\_\_
5. In your view what are the major challenges to professional ethics at macro level
- Absence of accounting standard    Absence of regulatory body    Frequency of changes in regulations    lack of professional development opportunity    Other: Specify \_\_\_\_\_
6. In your view what are the major challenges to professional ethics at individual accountant level
- Lack of awareness of professional ethics    Influence of clients    Absence of continuous professional development    Promotion of self-interest over professional duty    Other: Specify \_\_\_\_\_
7. As an Authorized Accountant, what do you think is your primary responsibility?
- Client interest    Users' interest    Public interest    Can't tell
8. When faced with choices of decisions, you base your decisions on
- Your judgment    Professional ethics    Client interest    Can't tell
9. Before taking an engagement with a client, do you check your clients' background (compliance history)?  Yes    No
10. Before taking an engagement with a client, do you check financial reports prepared before you were commissioned to the task?  Yes    No
11. Do you provide authentication service for financial statements prepared by accountants working without license (provided that you know them)?  Yes    No
12. Do you provide authentication service for financial statements prepared by accountants working without license (even if you don't know them)?  Yes    No
13. Do you accept transactions, for recording, which are doubtful but legal?
- Yes    No

14. Were there circumstances / cases where managers or owners approached you to adjust figures (in their favour) in the reports?  Yes  No
15. Were there circumstances where your engagement contracts were terminated for refusing a pressure from a client?  Yes  No
16. Have you withdrawn from an engagement due to perceived threat to your professional judgment?  Yes  No
17. Do you think that there are irregularities, on the part of law enforcement bodies, in the application of laws and regulations pertaining to the profession?  Yes  No
18. Have you ever used the information obtained, as a result of your engagement, to negotiate fee?  Yes  No
19. Do you think that a relationship with a client (friendship / family / long standing service, etc) influences your approach to the task?  Yes  No
20. Do you have clients which you consider are too important as a source your revenue?  
 Yes  No
21. Have you ever sympathized a clients' position (financial distress, damages to property, etc. ) to base some of your decisions?  
 Yes  No

**Section III:** Please kindly indicate the appropriate scale for your opinion by ticking (√) on the spaces that indicate your choice from the options that range from ‘**Strongly Disagree, Disagree, Neutral, Agree to Strongly Agree.**

No.	Issues	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Clients pressurize Authorized Accountants to make adjustments in their favour					
2	Authorized Accountants accept client request for service regardless of experience or professional capacity					
3	Authorized Accountants are frequently engaged in authentication service for reports not produced by them					
4	Absence of regulatory body dedicated to the profession has contributed to the irregularities					
5	The new Financial Reporting Proclamation will address some of the irregularities in the profession					
6	The quality of the reports produced by Authorized Accounts is perceived low by external users					
7	The establishment of Accounting and Auditing Board of Ethiopia (AABE) will address some of the irregularities in the profession					
8	Authorized Accountants make exaggerated claims about their service to promote their client base					
9	Efforts of Authorized Accountants to improve their professional competence is not adequate					
10	Authorized Accountants verify potential client’s prior history before taking engagement					
11	Authorized Accountants engage in the service of reporting entities where they or their immediate families have interest					
12	Authorized Accountants do not take into account the situation of internal control in place to make their judgments					
13	Authorized Accountants give much weight to following the rules than moral values					
14	Authorized Accountants worry much about losing a client who is a significant source of revenue					
15	Authorized Accountants receive gifts from clients regardless of magnitude of the gift					
16	Authorized Accountants produce reports having inflated figures for use by creditors (banks, etc.)					
17	Authorized Accountants produce reports having reduced profit for tax filing purpose					
18	Authorized accountant provide adequate awareness as to the limitation of their service					
19	Authorized accountant reveal information obtained as a result of their engagement to a third party (friend, family member, etc) without client’s consent					
20	Authorized Accountants exercise fee charges dependent on outcome of service (contingent fee)					

**Section IV:** Please kindly provide your brief opinion for the questions that follow

1. Users of financial reports like banks and ERCA do have doubts about the quality of the financial reports. What do you think are the two primary reasons for the doubts?

1.1 \_\_\_\_\_

1.2 \_\_\_\_\_

2. The reputation of “Accounting as a profession” is tarnished by Accounting frauds and scandals in developed and developing countries alike. What do you think is the image of “Accounting” in Ethiopia

3. Following the major financial scandals, the introduction of “ethics” in the curriculums of higher education is gaining momentum. Do you think it will have positive impact in the Ethiopian context?

4. “Younger accountants have a stronger desire to abide by the accounting principles” while “older accountants tend to bend or follow their judgments”. Comment.

Thank you

Addis Ababa University  
College of Business and Economics  
Department of Accounting and Finance

**Dear participant**

This questionnaire is addressed to Authorized Auditors. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study on *Challenges and Threats to Professional Ethics: A case of Authorized Accountants and Authorized Auditors in Ethiopia*.

This questionnaire consists of four sections: Section I deals with the general profile of the respondent, section II covers the respondent’s perceptions of ethical issues, section III draws ethical issues surrounding Authorized Auditors, and section IV addresses issues that require narrative explanation of the respondent.

Dear respondent, your participation is voluntary. Information collected through this medium is used for academic purpose only and will be kept confidential. Respondent's identity will not be revealed to other parties. Your genuine involvement and kind support is regarded as a great input to the quality of the research results

Thank you very much for sharing your invaluable experience and time in completing the questionnaire.

**Section I: General Information of Respondent**

Please kindly tick (√) your answer in the appropriate boxes

1. Gender:       Female       Male

2. Academic level:

ACCA       CPA       PhD       Other: Specify \_\_\_\_\_

3. Work Experience as Authorized Auditor

Less than 5 years     6 to 10 years     11 to 15 years     16 to 20 years     Over 20 years

4. Form of Organization (your service company)

Sole Proprietorship     PLC       Partnership       Other: Specify \_\_\_\_\_

If partnership or PLC, number of partners / shareholders: \_\_\_\_\_

5. Number of employees:

Professional staff: \_\_\_\_\_ Support staff: \_\_\_\_\_

6. Client size

1-25     26-50     51-75     76-100     > 100

7. Type of business form of clients (in the order of number of clients, rank from 1 to 5)

Sole Proprietorship     PLC     NGO     Share Co.     Other: Specify \_\_\_\_\_

8. Type of service provided to clients (in the order of significance, rank from 1 to 4)

Assurance service     Advisory service     Sub-contract the accounting activity

Other: Specify \_\_\_\_\_

9. The reason for seeking your service (in the order of importance, rank from 1 to 5)

Tax filing purpose     Creditors' request     Internal performance / status review

Legal / court cases     Other: Specify \_\_\_\_\_

10. Average stay of a client using your service

1 year     2 - 4 years     5 - 7 years     8 - 10 years     Over 10 years

## Section II: respondent's perception

1. Organizational arrangement of your clients (in the order of frequency, rank from 1 to 5)

Family based     Owner manager     Hired professionals     Structured along organizational line     Structured along organizational line and having Board of Directors

2. Do your clients have "accountants" handling the regular financial recording activity

All the time     75% the cases     50% the cases     Not at all     Don't know

3. Do you think that the financial statements submitted to stakeholders are fair presentation of facts of the reporting entity?

All the time     75% the cases     50% the cases:     Not at all     Don't know

4. In your experience, clients are primarily concerned with

Increasing profit     Exaggerating expenses     Understating inventory     Fair presentation of facts     Other: Specify \_\_\_\_\_

5. In your view what are the major challenges to professional ethics at macro level
- Absence of accounting standard    Absence of regulatory body    Frequency of changes in regulations    lack of professional development opportunity    Other: Specify \_\_\_\_\_
6. In your view what are the major challenges to professional ethics at individual auditor level
- Lack of willingness to follow professional ethics    Influence of clients    Absence of enforcement for professional conduct    Promotion of self-interest over professional duty    Other: Specify \_\_\_\_\_
7. As an Authorized Auditor, what do you think is your primary responsibility?
- Client interest    Users' interest    Public interest    Can't tell
8. When faced with choices of decisions, you base your decisions on
- Your judgment    Professional ethics    Client interest    Can't tell
9. Before taking an engagement with a client, do you check your clients' background (compliance history)?  Yes    No
10. Before taking an engagement with a client, do you check financial reports prepared before you were commissioned to the task?  Yes    No
11. Do you provide assurance service for financial statements prepared by accountants (not regular employees of the reporting entity) and working without license (provided that you know them)?  Yes    No
12. Do you provide assurance service for financial statements prepared by accountants (not regular employees of the reporting entity) and working without license (even if you don't know them)?  Yes    No
13. Do you accept transactions, the fall in your sample, which are doubtful but legal?
- Yes    No
14. Were there circumstances / cases where managers or owners approached you to adjust (in their favour) audit opinion?  Yes    No

15. Were there circumstances where your engagement contracts were terminated for refusing a pressure from a client?  Yes  No
16. Have you withdrawn from an engagement due to perceived threat to your professional judgment?  Yes  No
17. Do you think that there are irregularities, on the part of law enforcement bodies, in the application of laws and regulations pertaining to the profession?  Yes  No
18. Have you ever used the information obtained, as a result of your engagement, to negotiate fee?  Yes  No
19. Do you think that a relationship with a client (friendship / family / long standing service, etc) influences your approach to the task?  Yes  No
20. Do you have clients which you consider are too important as a source your revenue?  
 Yes  No
21. Have you ever sympathized a clients' position (financial distress, damages to property, etc. ) to base some of your decisions?  
 Yes  No

**Section III:** Please kindly indicate the appropriate scale for your opinion by ticking (√) on the spaces that indicate your choice from the options that range from ‘**Strongly Disagree, Disagree, Neutral, Agree to Strongly Agree.**

No.	Issues	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Clients pressurize Authorized Auditors to modify opinions (usually for clean reports) despite the facts					
2	There are instances whereby Authorized Auditors produce reports without due assessments of the facts					
3	The practice of self-review is very low among Authorized Auditors with respect to clients; books of accounts					
4	Absence of regulatory body dedicated to the profession has contributed to the irregularities					
5	The new Financial Reporting Proclamation will address some of the irregularities in the profession					
6	The quality of the financial reports produced by Authorized Auditors is perceived low by external users					
7	The establishment of Accounting and Auditing Board of Ethiopia (AABE) will address some of the irregularities in the profession					
8	Tender based competition for Audit services have influence on quality of output					
9	The practice of checking previous compliance history of a potential client is low among Authorized Auditors					
10	Audit fees are agreed upon before commencement of engagement					
11	Authorized Auditors engage for assurance service of reporting entities where they or their immediate families have interest					
12	Authorized Auditors do not take into account the situation of internal control in place to make their judgments					
13	There are instances where Authorized Auditors are engaged in the accounting and assurance service of a given reporting entity					
14	There is noticeable competency gap between the Authorized Auditors and staff					
15	Authorized Auditors provide second opinion on their own of works of other auditors					
16	Authorized Auditors provide adequate awareness as to the limitation of their service					
17	Authorized Auditors accommodate client’s pressure to reduce the extent of work to meet time constraints.					
18	Authorized Auditors apply fees charged dependent on outcome of service (contingent fee)					

**Section IV:** Please kindly provide your brief opinion for the questions that follow

1. Users of financial reports like banks and ERCA do have doubts about the quality of the financial reports. What do you think are the two primary reasons for the doubts?

1.1 \_\_\_\_\_

1.2 \_\_\_\_\_

2. The reputation of “Accounting as a profession” is tarnished by Accounting frauds and scandals in developed and developing countries alike. What do you think is the image of “Accounting” in Ethiopia

3. Following the major financial scandals, the introduction of “ethics” in the curriculums of higher education is gaining momentum. Do you think it will have positive impact in the Ethiopian context?

4. “Younger auditors have a stronger desire to abide by the audit standards” while “older auditors tend to bend or follow their judgments”. Comment.

Thank you

Addis Ababa University  
College of Business and Economics  
Department of Accounting and Finance

**Dear participant**

This questionnaire is addressed to Authorized Auditors. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study on *Challenges and Threats to Professional Ethics: A case of Authorized Accountants and Authorized Auditors in Ethiopia*.

This questionnaire consists of four sections: Section I deals with the general profile of the respondent, section II covers the respondent’s perceptions of ethical issues, section III draws ethical issues surrounding Authorized Auditors, and section IV addresses issues that require narrative explanation of the respondent.

Dear respondent, your participation is voluntary. Information collected through this medium is used for academic purpose only and will be kept confidential. Respondent's identity will not be revealed to other parties. Your genuine involvement and kind support is regarded as a great input to the quality of the research results

Thank you very much for sharing your invaluable experience and time in completing the questionnaire.

**Section I: General Information of Respondent**

Please kindly tick (√) your answer in the appropriate boxes

1. Gender:       Female       Male

2. Academic level:

ACCA       CPA       PhD       Other: Specify \_\_\_\_\_

3. Work Experience as Authorized Auditor

Less than 5 years     6 to 10 years     11 to 15 years     16 to 20 years     Over 20 years

4. Form of Organization (your service company)

Sole Proprietorship     PLC       Partnership       Other: Specify \_\_\_\_\_

If partnership or PLC, number of partners / shareholders: \_\_\_\_\_

5. Number of employees:

Professional staff: \_\_\_\_\_ Support staff: \_\_\_\_\_

6. Client size

1-25     26-50     51-75     76-100     > 100

7. Type of business form of clients (in the order of number of clients, rank from 1 to 5)

Sole Proprietorship     PLC     NGO     Share Co.     Other: Specify \_\_\_\_\_

8. Type of service provided to clients (in the order of significance, rank from 1 to 4)

Assurance service     Advisory service     Sub-contract the accounting activity

Other: Specify \_\_\_\_\_

9. The reason for seeking your service (in the order of importance, rank from 1 to 5)

Tax filing purpose     Creditors' request     Internal performance / status review

Legal / court cases     Other: Specify \_\_\_\_\_

10. Average stay of a client using your service

1 year     2 - 4 years     5 - 7 years     8 - 10 years     Over 10 years

## Section II: respondent's perception

1. Organizational arrangement of your clients (in the order of frequency, rank from 1 to 5)

Family based     Owner manager     Hired professionals     Structured along organizational line     Structured along organizational line and having Board of Directors

2. Do your clients have "accountants" handling the regular financial recording activity

All the time     75% the cases     50% the cases     Not at all     Don't know

3. Do you think that the financial statements submitted to stakeholders are fair presentation of facts of the reporting entity?

All the time     75% the cases     50% the cases:     Not at all     Don't know

4. In your experience, clients are primarily concerned with

Increasing profit     Exaggerating expenses     Understating inventory     Fair presentation of facts     Other: Specify \_\_\_\_\_

5. In your view what are the major challenges to professional ethics at macro level
- Absence of accounting standard    Absence of regulatory body    Frequency of changes in regulations    lack of professional development opportunity    Other: Specify \_\_\_\_\_
6. In your view what are the major challenges to professional ethics at individual auditor level
- Lack of willingness to follow professional ethics    Influence of clients    Absence of enforcement for professional conduct    Promotion of self-interest over professional duty    Other: Specify \_\_\_\_\_
7. As an Authorized Auditor, what do you think is your primary responsibility?
- Client interest    Users' interest    Public interest    Can't tell
8. When faced with choices of decisions, you base your decisions on
- Your judgment    Professional ethics    Client interest    Can't tell
9. Before taking an engagement with a client, do you check your clients' background (compliance history)?  Yes    No
10. Before taking an engagement with a client, do you check financial reports prepared before you were commissioned to the task?  Yes    No
11. Do you provide assurance service for financial statements prepared by accountants (not regular employees of the reporting entity) and working without license (provided that you know them)?  Yes    No
12. Do you provide assurance service for financial statements prepared by accountants (not regular employees of the reporting entity) and working without license (even if you don't know them)?  Yes    No
13. Do you accept transactions, the fall in your sample, which are doubtful but legal?
- Yes    No
14. Were there circumstances / cases where managers or owners approached you to adjust (in their favour) audit opinion?  Yes    No

15. Were there circumstances where your engagement contracts were terminated for refusing a pressure from a client?  Yes  No
16. Have you withdrawn from an engagement due to perceived threat to your professional judgment?  Yes  No
17. Do you think that there are irregularities, on the part of law enforcement bodies, in the application of laws and regulations pertaining to the profession?  Yes  No
18. Have you ever used the information obtained, as a result of your engagement, to negotiate fee?  Yes  No
19. Do you think that a relationship with a client (friendship / family / long standing service, etc) influences your approach to the task?  Yes  No
20. Do you have clients which you consider are too important as a source your revenue?  
 Yes  No
21. Have you ever sympathized a clients' position (financial distress, damages to property, etc. ) to base some of your decisions?  
 Yes  No

**Section III:** Please kindly indicate the appropriate scale for your opinion by ticking (√) on the spaces that indicate your choice from the options that range from ‘**Strongly Disagree, Disagree, Neutral, Agree to Strongly Agree.**

No.	Issues	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Clients pressurize Authorized Auditors to modify opinions (usually for clean reports) despite the facts					
2	There are instances whereby Authorized Auditors produce reports without due assessments of the facts					
3	The practice of self-review is very low among Authorized Auditors with respect to clients; books of accounts					
4	Absence of regulatory body dedicated to the profession has contributed to the irregularities					
5	The new Financial Reporting Proclamation will address some of the irregularities in the profession					
6	The quality of the financial reports produced by Authorized Auditors is perceived low by external users					
7	The establishment of Accounting and Auditing Board of Ethiopia (AABE) will address some of the irregularities in the profession					
8	Tender based competition for Audit services have influence on quality of output					
9	The practice of checking previous compliance history of a potential client is low among Authorized Auditors					
10	Audit fees are agreed upon before commencement of engagement					
11	Authorized Auditors engage for assurance service of reporting entities where they or their immediate families have interest					
12	Authorized Auditors do not take into account the situation of internal control in place to make their judgments					
13	There are instances where Authorized Auditors are engaged in the accounting and assurance service of a given reporting entity					
14	There is noticeable competency gap between the Authorized Auditors and staff					
15	Authorized Auditors provide second opinion on their own of works of other auditors					
16	Authorized Auditors provide adequate awareness as to the limitation of their service					
17	Authorized Auditors accommodate client’s pressure to reduce the extent of work to meet time constraints.					
18	Authorized Auditors apply fees charged dependent on outcome of service (contingent fee)					

**Section IV:** Please kindly provide your brief opinion for the questions that follow

1. Users of financial reports like banks and ERCA do have doubts about the quality of the financial reports. What do you think are the two primary reasons for the doubts?

1.1 \_\_\_\_\_

1.2 \_\_\_\_\_

2. The reputation of “Accounting as a profession” is tarnished by Accounting frauds and scandals in developed and developing countries alike. What do you think is the image of “Accounting” in Ethiopia

3. Following the major financial scandals, the introduction of “ethics” in the curriculums of higher education is gaining momentum. Do you think it will have positive impact in the Ethiopian context?

4. “Younger auditors have a stronger desire to abide by the audit standards” while “older auditors tend to bend or follow their judgments”. Comment.

Thank you

Addis Ababa University  
College of Business and Economics  
Department of Accounting and Finance

**Dear participant**

This questionnaire is addressed to Banker. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study on *Challenges and Threats to Professional Ethics: A case of Authorized Accountants and Authorized Auditors in Ethiopia*.

This questionnaire consists of four sections: Section I deals with the general profile of the respondent, section II covers the respondent's perceptions of ethical issues, section III draws ethical issues surrounding Authorized Accountants and Authorized Auditors, and section IV addresses issues that require narrative explanation of the respondent.

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Thank you very much for sharing your invaluable experience and time in completing the questionnaire.

**Section I: General Information of Respondent**

Please kindly tick (✓) your answer in the appropriate boxes

1. Gender:       Female       Male

2. Academic level:

BA       MA/MBA/MSc       PhD       Other: Specify \_\_\_\_\_

3. Work Experience as Banker

Less than 5 years     6 to 10 years     11 to 15 years     16 to 20 years     Over 20 years

**Section II: respondent's perception**

1. Types of companies (Form of organization) having access to loan facility (in the order of importance rank from 1 to 5)

Share company  PLC  Partnership  Joint venture  Other: Specify \_\_\_\_\_

2. Do your clients having loan facility have “accountants” handling the regular financial recording activity

All the time  75% the cases  50% the cases  Not at all  Don't know

3. Do you think that the financial statements submitted to banks are fair presentation of facts of the reporting entity?

All the time  75% the cases  50% the cases:  Not at all  Don't know

4. In your experience, clients applying for service are primarily concerned (in the financial statements submitted) with

Exaggerating profit  Overstating inventory  Overstating accounts receivable

Fair presentation of facts  Other: Specify \_\_\_\_\_

5. In your view what are the major challenges to professional ethics at macro level

Absence of accounting standard  Absence of regulatory body  Frequency of changes in regulations and directives  lack of professional development opportunity  Other: Specify \_\_\_\_\_

6. In your view what are the major challenges to professional ethics at individual accountant / auditor level

Lack of willingness to follow professional ethics  Influence of clients

Absence of enforcement for professional conduct  Promotion of self-interest over professional duty  Other: Specify \_\_\_\_\_

7. Do you think foreign owned companies have better quality financial reports as compared to companies having local owner

All the time  75% the cases  50% the cases  Not at all  Don't know

8. Were there circumstances / cases where Authorized Accountants approached you to facilitate favours by your bank?  Yes  No

**Section III:** Please kindly indicate the appropriate scale for your opinion by ticking (√) on the spaces that indicate your choice from the options that range from 'Strongly Disagree, Disagree, Neutral, Agree to Strongly Agree.

No.	Issues	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Most of the financial statements submitted to banks are not prepared in line with the banks requirement					
2	Audited financial reports have better reliability level as compared to the one prepared by Authorized Accountants					
3	Authorized Accountants are heavily influenced by the management / owners of the respective firms while preparing financial reports					
4	Authorized Auditors are heavily influenced by the management / owners while reviewing financial reports					
5	The quality of the financial reports submitted to banks are perceived as having low quality					
6	The new Financial Reporting Proclamation will address some of the irregularities in the profession					
7	The establishment of Accounting and Auditing Board of Ethiopia (AABE) will address some of the irregularities in the profession					
8	The quality of the financial reports submitted by the reporting entities has improved over the years					
9	There is a purposeful effort, on the part of the bank client, to exaggerate the performance / status of the applicant company					
10	Banks heavily rely on their relationship with the client for evaluation rather than on the financial statements received					

**Section IV:** Please kindly provide your brief opinion for the questions that follow

1. Users of financial reports like banks and ERCA do have doubts about the quality of the financial reports. What do you think are the two primary reasons for the doubts?

1.1 \_\_\_\_\_

1.2 \_\_\_\_\_

2. The reputation of "Accounting as a profession" is tarnished by Accounting frauds and scandals in developed and developing countries alike. What do you think is the image of "Accounting as a profession" in Ethiopia?

Thank you



3.3 \_\_\_\_\_

3.4 \_\_\_\_\_

4. What were the major challenges to the Association?

4.1 \_\_\_\_\_

4.2 \_\_\_\_\_

4.3 \_\_\_\_\_

4.4 \_\_\_\_\_

5. Do you think that EPAAA has met its objectives?

6. What is your assessment (impression) of members' professional conduct (professional ethics)?

6.1 \_\_\_\_\_

6.2 \_\_\_\_\_

6.3 \_\_\_\_\_

6.4 \_\_\_\_\_

### **Section III: EPAAA and stakeholders**

7. What were the critical issues raised during discussions / interactions with stakeholders: ERCA, OFAG, ECSC, ...?

7.1 \_\_\_\_\_

7.2 \_\_\_\_\_

7.3 \_\_\_\_\_

7.4 \_\_\_\_\_

8. There are other professional associations in Ethiopia dealing with the profession like ACCA, ASE, IIA- EC, EAFA, etc. What are the issues on common platforms pertaining to the profession?

8.1 \_\_\_\_\_

8.2 \_\_\_\_\_

8.3 \_\_\_\_\_

8.4 \_\_\_\_\_

9. How do you see the significance of Financial Reporting Proclamation and the establishment of Accounting and Auditing Standard Board (AABE)?

10. How was the relationship of EPAA with academic institutions and the professionals in the academia?

**Section IV: Professional Ethics and code of conduct**

11. Were there circumstances whereby the Association has received complaints from the public with regard to members' professional ethics / conduct?

11.1 \_\_\_\_\_

11.2 \_\_\_\_\_

11.3 \_\_\_\_\_

11.4 \_\_\_\_\_



**Section IV:** Please kindly provide your brief opinion for the questions that follow

5. Users of financial reports like banks and ERCA do have doubts about the quality of the financial reports. What do you think are the two primary reasons for the doubts?

5.1 \_\_\_\_\_

5.2 \_\_\_\_\_

6. The reputation of "Accounting as a profession" is tarnished by Accounting frauds and scandals in developed and developing countries alike. What do you think is the image of "Accounting" in Ethiopia

7. Following the major financial scandals, the introduction of "ethics" in the curriculums of higher education is gaining momentum. Do you think it will have positive impact in the Ethiopian context?

8. "Younger accountants have a stronger desire to abide by the accounting principles" while "older accountants tend to bend or follow their judgments". Comment.