

Comparison of Ethical Reasoning between Accounting Student and Auditors

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Abstract

The aim of this study is to determine the accounting students and auditors' ethical reasoning in State of Azad Jammu & Kashmir. This study utilized mix methodology to find out cause and comparison. The data collected from 101 accounting students and 50 auditors by using a structured questionnaire. Additionally, in-depth interviews of four auditors, and the head of a business school were conducted. The quantitative data was analysed by using independent sample t-test by using SPSS and qualitative data by using word cloud and word tree analysis by using NVivo software. The analysis reveals that difference in the perception of accounting students and auditors is not statistically significant. It further shows that auditors have higher level of moral reasoning when confronting the moral dilemma. The study also concludes that the auditor possesses a greater level of moral reasoning as compared to the accounting students. The findings of this study will be beneficial for the audit and accounting professionals and for the heads of the business schools.

Keywords: *Ethical Reasoning, Ethics, Auditing Profession, Business Ethics, Auditing Ethics, Ethical Dilemma.*

1. Introduction

It is widely recognized that the accounting and auditing functions are essentially needed in every society (Wyatt, 2004). Accountants or auditors are bound to follow the codes of ethics which are provided by relevant professional bodies (Accountants & Accountants, 2010). In the recent decades, the auditing occupation faced different corporate frauds. These frauds got lots of attention in print and electronic media. One of the main scandal in the USA known as Enron indicates the unethical actions at executive's levels (Agacer, Valcarcel, & Vehmanen, 2016). Most of the other scandals emerged in 2002 which included global crossing, Qwest, WorldCom, Merrill, Adelphia, Tyco, AIG and Goldman Sachs (Albrecht, 2008). In current decades, there has developing fear about ethics and honesty issues in the auditing and accounting profession in the private as well public on flawed acts. This decade also has been associated chain of auditing scandals, corporate failures and carelessness of ethics both developed economics. Today's businesses primarily focus ethical dilemma, which are highly depend on corporate frauds.

The public, business's students and the accountant all admits that the ethics are very essential quality of accounts (Fatt, 1995). The wrong perception of most people that ethics is all about obeying with regulations and standards (Melé, 2005). However, ethics identifies with the moral obligation to the public good. In the current decades inspected that the unethical behaviors were harmful for business reputation. According to Veiga (2004), ethical behaviors not only identify survival of organizations, as well as help the organizations to make maintainable success.

According to Kaptein (2009), improve the culture of ethics in the organization the boss decided to develop and create ethical sessions. An ethical culture would help to set up a proficient and effective monetary system (Elango, Paul, Kundu, & Paudel, 2010). The capacity of a moral society to build up a legitimate financial system is of significance to organizations. The study suggested that morals could not make the lives of peoples excellent in the trial world that occurs, yet ethics can forestall, or decrease the measure of certain damage from transpiring. According to Tota and Shehu (2012) morals can help with modification of policy assessment and furthermore help in investigating how profound quality influences the financial Behaviors of organizations and their representatives.

Furthermore, Gaa and Thorne (2004), stated that the universities not given the certain level of importance to the educating ethics. The study inspected that in industrial sector and concluded that the ethics are not constant and integral part of education among most of students, which cause gap between starting to the professional education (Borkowski & Ugras, 1992). According to Gandz and Hayes (1988), the discussed that the head of business school has responsibility to give ethics education to the students. The responsible of accounting as well as academic profession's responsibility to imprint personal integrity and ethical behavior in the students and practitioners (Smith, 2003).

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Ethical reasoning defined as ability to identify, assess and evaluate dissimilar perspectives of ethics (Rossouw, 2002), represented as ethical reasoning (Donaldson & Werhane, 2002). Ethical reasoning defines as the reaction of peoples in word of giving reason to justify the criticized actions. Ethical reasoning defined as "the ethical or moral reasoning series of criticism, which aimed to support claims, known as conclusions, so the result is these justifications consist of conclusions and reasons." The researchers found that there is noteworthy and progressive connection between moral reasoning or moral development and educations (Evans, 2005; Freeman, 2007). A study concluded that there is high moral reasoning of auditors as compared to the students when they faced ethical dilemma (Wennerholm & Larsson, 2006).

After the mega corruption traces found in the result of Panama leaks. It became more valid to study ethical consideration in the profession of accountancy. As Pakistan went through ever-biggest investigation corruption scandals, it encourages and provides strong justification to study the ethical consideration and situation for the developing nations as well.

Now these days auditing profession emphasize increase moral and ethical demands due to the revelation of scandals in the corporate sectors. Therefore, it necessary to investigate the auditor's level of ethical reasoning in the decision-making when facing the ethical dilemmas. Discussed earlier whether the facing moral dilemma experience is very important the differences as well necessary to investigate the level of accounting students and auditors while decision making while confronting the ethical dilemmas. There are following objective which are imperative to address.

1. To determine perception of accounting students and auditors toward auditing profession. 2. To determine moral reasoning level among auditors when confront a moral dilemma. 3. To determine auditors' level of ethical reasoning as they possess higher level as compared to accounting students.

2.1 Literature Review

2.1.1 Corporate Scandals

There are lots of cases has been developed calamity of confidence in the auditing and accounting profession (Dewing & Russell, 2004). According to Cooper and Fargher (2011), when firm are rapidly fail or it is exposed to involve in fraudulent activities then annual statement of organization is questionable. If financial frauds revealed, then auditors come under inspection. Expectation of the public auditor tries to reduce corruption, If external auditor not expose corruption, then at least identify where fraud may exist (Khan, 2006).

The Enron was energy company which was established in 1985, at the 1990 the beginning life of Enron's shares rose up to 311 % (Healy & Palepu, 2003). Because of compromising the auditor's duty by December 2001, the company bankrupt. Similarly, the world most famous dairy company Parmalat was worked in 30 countries in the world (Celani, 2004). The world failed due to failures of auditor's role. In Pakistan, there are different corporate scandals in Pakistan such as Mehran bank scandals, ENGRO group of companies, crescent bank fraud, and PTCL privatization. Crescent Bank Fraud was exposed predicting amount according to External auditor 6 billion rupees were missing due to not keeping of maintenances and parallel account (Dar, Naseem, Niazi, & Rehman, 2011).

2.1.2 Ethics in Business

The word morals or ethics got from the Greek word "Ethos" it means a set of honest actions that is accepted widely. The term Business Ethic used in a different sense. According to Business morals is a type of Applied Morals (BRONI, 2010). Ethics is concept of standards or morals, somebody's ability to pick among worthy, unacceptable, among good, bad, great, and awful. Business Ethics includes moral values and moral principles (Jones, Parker, & ten Bos, 2005). A study conducted to determine the influence of business morals on the services organization in Nigeria and found the significance effect (Ebitu & Beredugo, 2015).

According to Collins (2010), stated that the making of money is not wrong itself in business but manners are the only thing which corporations conducted activities to bring up the interrogation of moral behavioral. A study concluded that the many businesses earned millions of dollars to breach the rules of ethical business (Brown & Mitchell, 2010). Guillén, Melé, and Murphy (2002), examined that it might be up to the public to ensure that a business organization operate their business in environment sticks to rectify ethics of business. As Waqas, Rehman, Munira, Shujahat, and Shazmina (2020) ethical business encourages the loyalty of customers with our business and intuitions.

The author argued that corporate ethics is the activities which companies adhere to the carrying out in its routines activities in which its operations are outer of community (Obalola, 2008). This study

examined that the moral values and social responsibility was significant for the organizational Success (Vitell & Hidalgo, 2006). Being social responsible is valid for every organization and individual in the society (Shujahat Ali, Muhammad, Syeda, & Lu, 2017).

2.1.3 Ethics in Auditing

Unethical behaviors caused corporate scandals in past few years. In Pakistani contextual auditors are facing criticism in past few years like panama leaks and PTCL privatization Carnegie and Napier (2010), Defines accounting Increasing Societal practice not increasing the technical training with the participation of the other expert occupation and groups to acquire and retain the talent. The study has been argued that there is no dissimilarity in the thinking among the respondents to no need to abided high moral standards by the auditors and it should need to shape the views of newcomers in this profession (Adeyemi & FAGBEMI, 2011).

The study describe that the auditors are performing as advisor more than profession. This issue is rise in media in past few years. If the firms have, more ability to provide services of consultancy connected to auditing profession. Most of the auditing firms are established consultancy department which gives on consultancy related services (Crane & Matten, 2004).

2.1.4 Accounting Students and Auditors

Many past studies have inspected that the student 'ethical decision making and experts' moral decision making recognize how accounting students are reacting when they confront ethical dilemmas as well as a professional's reaction when they confront moral dilemmas. Aruñada (2004), Stated that the ethics contributes vital role in the education, which is beneficial for accounting student. This study has shown that the ethics in the education will help the business schools to produce aware of ethics in the Accounting students, which will help to face the challenges, when they enter in the professional field. Some previous studied focused on comparing the students with professionals (Wennerholm & Larsson, 2006).

Richmond (2001), Explored that the ethical reasoning of accounting student was lower when the faced ethical dilemmas as compared the business professional or majors. Dunn and Shome (2009), explored the cultural differences between Canadian and Chinese Accounting student to determine the ethically different business behaviors. The author concluded that societal desirability bias is greater in the Canadian accounting student as compares the Chinese accounting students. From the above studies, we develop below hypothesis.

H1: There is no significant difference between auditors and accounting students toward the perception of Auditing profession.

2.1.5 Codes of Ethics

Codes of ethics defined Schwartz (2001), well written, formal and distinct documents in which all values and moral standards includes to give directors the employees. There are many studies conducted on codes of ethics. The miscellaneous results are provided by the relationship between ethical behaviors and codes of ethics (Loe, Ferrell, & Mansfield, 2000). According to Pflugrath, Martinov-Bennie, and Chen (2007), codes of ethics are significantly and positive influence on professional accountants and incase of student are not influence on students. The study examined that the codes of ethics not discouraging factor of unmoral behaviors, it's our thinking the codes of ethics is an essential factor orientation toward partial and ethical behavior of auditor (Somers, 2001).

2.1.6 Ethical reasoning in decision-making

A study argued due to financial failure or business failures it was important to draw attention on the decision-making. Decision naming is defined as Terry and Franklin (1972) "Decision-making is the selection based on certain criteria from two or more alternatives." The data collected from the students and the professional of banking and finance. The study argued that there is a significant dissimilarity between the two clusters. This study also founded that the teaching of ethics is more effective for the students as compared the professionals of banking and finance (Phuong, Fisher, & Mujtaba, 2014). The one more study Phuong, Fisher, and Mujtaba was conducted to check the decision making This time the data was collected from the undergraduate and post graduate in banking and finance. The study concludes that there is a statistical dissimilarity in between these two clusters in the decision-making. This study also founded that the teaching of ethics is more effective for the undergraduate students as compare the postgraduate

students. According to Hunt and Vitell (2006), there are a lot of models are developed to tackle the difficulties in the moral decision making. These models mostly constructed on the reason-based process, which has four basic stages. First one is awareness, second is judgment third is intentions and forth is behaviors (Mustamil & Quaddus, 2009). Evident in Pietilä, Nurmi, Halkoaho, and Kyngäs (2020) Ethics are based on the principles of autonomy, non-maleficence, beneficence, and justice. They would not be compromised while decision making.

2.1.7 Ethical Dilemma in Accounting/Auditing

The author defines the moral dilemma as the conflict or contention between "two similarly attractive or two similarly unfortunate decisions (Bunting & Webb, 1988). According to Pence (2004), Moral or ethical dilemma are totally different from the unmoral or non-ethical dilemma. The non-ethical dilemma is the decisional struggle in which ethics are not included and non-ethical decisions are harmful for the others. There are two types of ethical reasoning one is prescriptive and other deliberative. The prescriptive moral is telling us what should resolve the problem or ethical dilemma and on the other hand deliberative ethics tells us how resolved the moral dilemma before (Rest, 1986).

2.1.8 Cognitive moral development Theory

On making decisions ethically this theory known as a cognitive moral development theory. One theory will give a base to most of the previous and future studies. Kohlberg's Theory of moral or ethical reasoning is perfect theoretical and philosophical approach. Kohlberg (1976), categorized ethical reasoning of individuals. Their first classification of this theory is a pre - conventional level, which means self-focus and second classification, is conventional which means is focus on the group and third classification is post-conventional which means is inner self-focus. Lovett and Jordan (2010), Created model for moral decision making which explains manners that tells auditors complete ethical decision.

Kohlberg discussed that the all human and peoples are making decision but with the same base ethical values (Kohlberg, 1981), There are basically three stages in moral development theory, the first stage is known as pre-conventional stage in which humans take decision on self-esteem which occurs between 3 to 7 years, in this stage punishment are avoided and the reward are given. The second stage is Kohlberg's theory is conventional ethics or morality is conventional level which occurs between 8 to 13 years in this stage peoples make standards and individual are fully depends or individual thinks what peoples are expected from others. The third stage of Kohlberg's theory's level is Post-Conventional in which occurs between 18+ or adults. In this level the individual wants to try independent decision which are grounded on the codes or principle of truths and honesty rather than outside's effect (Crane & Matten, 2004). As the results of Kohlberg's theory is peoples or individuals are the progress from lower to higher stage sequentially in which education plays very vital role in achieving the maximum stage of ethical development. According to this theory, decision-making capabilities develop with time and experience through supporting by this theory we develop below hypothesis.

H2: Auditors possessing high ethical reasoning while facing moral dilemma.

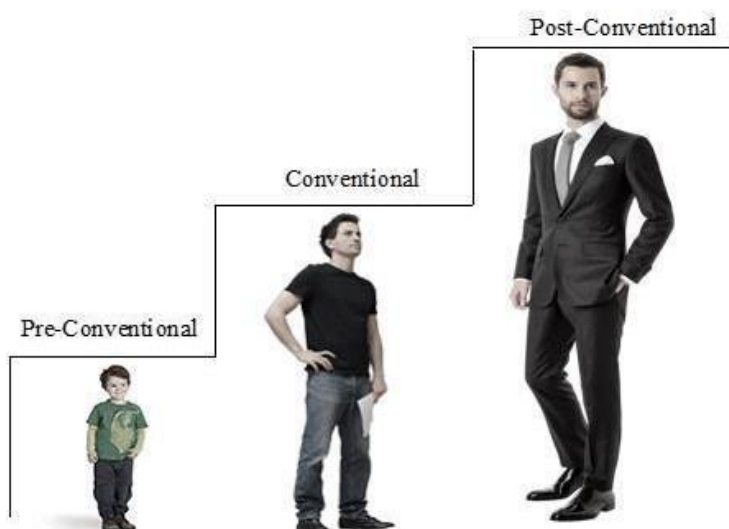


Figure 1: Cognitive Moral Development

The above **Figure 1** shows the stages of Kohlberg's moral development in a better way to understand.

3. Research Methodology

This article utilized mix methodology to find out difference and cause of difference if exists, Explanatory sequential design utilized to check difference and cause. Quantitative methods help to find out difference and qualitative methods helps to determine root cause. Population of study is Auditors, Director and treasurer officer and accounting students of Universities in Azad Kashmir. In case of quantitative method random sampling technique utilized for data collection, in case of qualitative technique study used Convenience sampling technique. The primary information collected through adapted questionnaires that distributed to the Auditors and accounting students. The data has been collected from the auditors and accounting students. The data collected from both respondents to assess that whether there is difference between two groups when there are confronting the ethical dilemma. Hence, accounting student also read same subjects which auditors read. So, students have no practical experience. Contrarily, auditors have practical experience to face ethical dilemma on daily basis, but accounting students are not face ethical dilemmas.

The 110 questionnaires distributed to Accounting Students 101 Questionnaires consider suitable filled. There are 42 questionnaires were received from MUST University, 37 were received from University of Kotli and 22 questionnaires received from University of Muzaffarabad. In case of auditors, the 60 Questionnaires were distributed, and 50 questionnaires consider suitable and 10 questionnaires deleted because of un-engagement response. Around 15 questionnaires received from MUST Auditors, 14 received from AG's Auditors, five Questionnaires received from income tax office, 16 questionnaires received from the private auditors. This study used 2:1 (101 accounting students and 50 auditors) ratios for data collection because of unavailability of auditors and easy availability of accounting students. This study conducts four in-depth interviews from the auditors, Director and treasurer officer of the universities.

This study utilizes developed questionnaires and open-ended interview questions to find out the ethical reasoning in the auditing profession. This study used eight questionnaires to find out ethical reasoning in auditing profession when facing ethical dilemma developed by Wennerholm and Larsson (2006) and also utilized nineteen in-depth open ended interview questions which is also developed by (Wennerholm & Larsson, 2006). The descriptive analysis, Reliability, and independent sample t test through the using of SPSS version 24 and on the other hand words cloud and word tree used to analyze the interview questions by utilizing of NVivo 12. The number of researchers is using starting from 1950s. The mix method studies paved way to "meaningfully engage with difference"(Greene; Levitt et al., 2018). As Anguera, Blanco-Villaseñor, Losada, Sánchez-Algarra, and Onwuegbuzie (2018) synergic approaches used for research, Johnson, Onwuegbuzie, and Turner (2007) it required a new paradigm. The researchers relied on mixed methods resources to substantiate that "mixing" can occur at any stage of the research process to bring a novelty in the findings and presentation (Tight & Huisman, 2013). Discovered by McKim (2017) mix methodologies provides deeper meaning of phenomena.

4. Analysis and Discussion

4.1 Demographics

Table 1: Gender

		Frequency	Percent	Cumulative Percent
Students	Male	69	68.3	68.3
	Female	32	31.7	100.0
	Total	101	100.0	
Auditors	Male	50	100.0	100.0

In case of students respond 68.3 % males and 31.7 % are females on the other hand 100% auditors are male. Azad Kashmir is the male dominant state that is major of the male respondents of the study.

Table 2: Age

		Frequency	Percent	Cumulative Percent
Students	20-25	6	5.9	5.9
	26-30	91	90.1	96.0
	31-35	4	4.0	100.0
	Total	101	100.0	
Auditors	26-30	2	4.0	4.0
	31-35	14	28.0	32.0
	36-40	18	36.0	68.0
	41+	16	32.0	100.0
	Total	50	100.0	

Results shows that six (5.9%) students were 20-25-year-old, 91(90.1%) were 26-30, 4(4.0%) were 31-35-year-old. Diversely, two (4.0%) auditors were 26-30-year-old, 14(28.0%) were 31-35, 18(36.0%) were 36-40 and 16(32.0%) were 41+ year old participated in current study.

Table 3: Qualification

Qualification				
		Frequency	Percent	Cumulative Percent
Students	Intermediate	7	6.9	6.9
	Graduate	26	25.7	32.7
	Master	68	67.3	100.0
	Total	101	100.0	
Valid	Graduate	3	6.0	6.0
	Master	6	12.0	18.0
	Chartered Accountant	41	82.0	100.0
	Total	50	100.0	

The above statistics indicated that the qualification of the respondents. Study shows that seven (6.9%) students were intermediate, 26(25.7%) were graduate, 68(67.3%) were master's degree students who took accounting courses on their course work. Contrarily, three (6.0%) auditors were graduate, six (12.0%) were master and 41(82.0%) were chartered accountant in different private as well as public firms.

Table 4: Reliability Analysis

	Cronbach's Alpha	N of Items
Reliability of Accounting student's response	.611	08
Reliability of Auditor's response	.735	08

Reliability of research and validity of research are influence on the quality of research (Punch & Oancea, 2014). The Reliability and the validity of the data and their findings is the most vital portion of analysis because it understands the trustworthiness of the research. Reliability analysis used to check whether the question is internally consistent or not. If the result is less than 0.60, it means the question is not reliable and if the result is greater than 0.60, its mean questions are reliable. Results indicate that this study used 14 questionnaires item's whose internal consistency is 61.1 % in student response and 73.5 % in auditor's response. According to Cohen (1960), reliability is $\geq 60\%$ is recommended standard. It means internally all items are consistent. To check the quality of the data, which used in this study, it is necessary to address the following things. The information should be reliable or consistent and the data should also be generalized and validated (Saunders, 2003).

Table 5: Independent Sample t test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2- tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Item 01	EVA	1.619	.205	.643	149	.521	.111	.172	-.230	.452
	EVNA			.626	91.237	.533	.111	.177	-.241	.463
Item 02	EVA	2.460	.119	1.606	149	.110	.220	.137	-.051	.490
	EVNA			1.596	96.267	.114	.220	.138	-.054	.493
Item 03	EVA	6.628	.011	4.173	149	.000	.693	.166	.365	1.021
	EVNA			4.352	109.382	.000	.693	.159	.377	1.009
Item 04	EVA	2.758	.099	4.714	149	.000	.772	.164	.449	1.096
	EVNA			5.045	117.068	.000	.772	.153	.469	1.076
Item 05	EVA	12.151	.001	4.267	149	.000	.753	.177	.405	1.102
	EVNA			4.783	131.233	.000	.753	.158	.442	1.065
Item 06	EVA	.695	.406	2.730	149	.007	.426	.156	.118	.734
	EVNA			2.782	102.807	.006	.426	.153	.122	.730
Item 07	EVA	.042	.839	1.573	149	.118	.217	.138	-.056	.491
	EVNA			1.541	92.658	.127	.217	.141	-.063	.498
Item 08	EVA	4.292	.040	-.854	149	.395	-.190	.223	-.630	.250
	EVNA			-.812	86.070	.419	-.190	.234	-.655	.275

Independent sample t-test used in this study, which will help to understand the difference between Auditors and accounting students. Levene's test shows that if significant value is less than 0.05 then read top line otherwise read the bottom line of t test. In addition, if the significant value of t test is less than 0.05 then there is difference in auditors and accounting students otherwise there will be no difference in both groups. Above results indicate that the clear difference between students and auditors is examined.

4.2 Interview Analysis

This study also used qualitative technique to examine the moral reasoning in auditing profession. The study uses the NVivo 12 for qualitative analysis. According to (Ozkan, 2004), has been identified that NVivo was very supportive in qualitative analysis. In a word cloud the non-frequents and grammatically words secreted and shows the most important frequent word in different frequencies. In the word cloud greater themes means it is more important.

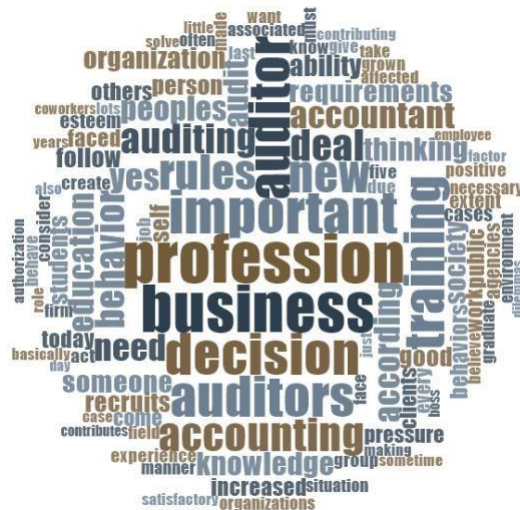


Figure 02: Word Cloud of Respondents Interview

The above Figure 02-word cloud shows the overall respondent. According to above responses that result is that the ethics are very important for society and profession. According to responses, the three auditors believe that requirements of the responses and accountant increased in last five years, but one response are disagreeing with it. Two response consider that ethics are very important for auditing profession and two responses consider ethics are important for every field. All four responses consider ethics should be included in large extent in training of accountant/auditors. Respondent believe that auditor has more ability consider ethical dilemma as compare to students and all responses say that the education is very important before starting new business or enter in professional life. 1) Response is not able to be confronting moral dilemma as compare to professional dilemma remaining three respondents have high ability to face moral dilemma. Respondents believe that the group pressure play-contributing factor to creating the unethical behaviors. Respondents also said that ethical rules could not create ethical behaviors.



Figure 03: Overall Word Tree of Respondents Interview

The above Figure 03 shows that the tree map. The word tree map shows the association among different pattern of conservation with the main word. Here in this study the central word is ethical dilemmas, which are map with words from both sides.

5. Discussion

In this study, we have investigated the role of ethical reasoning for accounting students and auditing professions. The students known to invent, create, and become active part of society and institutions. The more knowledge able they will the more they will deliver (Shujat Ali, Lu, & Wang, 2013). Our study confirms the notion of Waqas, Rehman, Shujahat, Yasir, and Ayaz (2019) that satisfaction of value system is essential to behave and perform in ethical manner for accounting student and auditing professionals. We

have revealed that ethical values are vital for students and professionals simultaneously for ethical decision-making. We have revealed the knowledge about ethical values and professional tasks encourages individuals to be more ethical. This study recommends to the responsible of the Business schools there is a need to improve Ethic's education in the syllabus of accounting students. It is important for students to know the importance of ethic is in the profession and advised the auditor to deal with client ethically, which will be beneficial for the reputation of the profession. This study recommends providing ethic's education to the auditors while in training process. The results could apply in public and private institutions where auditing and accounting practices are involved. Study found that the auditors have experience to deal with ethical dilemmas on the daily basis as compared to the accounting student. When students join the auditing profession than with passage of time, they developed skills to confronting the ethical dilemmas. Conclusively, study found that students can develop skills to face ethical dilemmas when they are working with professionals.

6. Conclusion

The goal of this study is to investigate the ethical dilemma while decision-making in auditing. At the end of this study found that the not much significant difference between auditors and the accounting student is thinking toward the auditing profession. The second question was that level of ethical reasoning among auditors when facing a moral dilemma, this study concluded that the auditors have high ability to face ethical dilemma in decision making and found that the auditors have high ethical reasoning as compared to accounting students because auditors have experience to confronting the moral dilemma. The responsible of the business school ensure to focus on ethics education, which will be beneficial for students when they enter in professional life and business. At the end of this study to reach on the results, that the auditors handle ethical dilemma comfortably because of experience which students does not have.

6.1 Practical Implication and Future Suggestion

Current study has several implications such as this study beneficial for the researchers as well as academicians. The study provides crystal clear insight to the educational institutions to pay focus on the ethical subjects and should be include in the ethical education with the accounting courses. The findings of study provide the avenue to getting prepared to face the issues and challenges in the practical life. This study draws attention on ethical reasoning in the auditing profession, a comparison between accounting students and auditors. Future suggestion for the researchers and scholars to investigate the ethical reasoning in the accounting profession while facing ethical dilemma, this study also suggested investigating the ethical reasoning amid accounting student's majors to determine some majors has established ethical reasoning as compare to others. It suggested making comparison between small and big accounting/auditing firms. This study conducted to inspect the ethical reasoning comparison with other professions. It is important to investigate the cross-country ethical reason in the auditing profession.

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