



Need for Ethical Accounting Regulations A Study of Auditors in Navsari City

Dr. Mehul P. Desai

Head, Department of Accounting, Udhna Citizen Commerce College & SPBCBA & UACCAIT

ABSTRACT

The nature of the work carried out by accountants requires a high level of ethics. So, they must follow the ethical accounting regulations. To analyze the need for Ethical Accounting Regulations (EAR) in Navsari, 50 audit practitioners have been considered as respondents. The data has been collected by framing a structured questionnaire. It has been analyzed by applying ANOVA test. From the analysis, it has been concluded that Framework for Ethical Accounting Regulations (EAR) is required in Navsari City. It has been found from the regression test that Ethical attitude has the strongest influence on EAR followed by Ethical Accounting Audit, Ethical Accounting Regulation, Ethical Accounting in practice and Business ethics & Corporate Social Responsibility.

KEYWORDS : Accounting Ethics, Ethical Accounting Regulations (EAR), Accounting Standards..

1. INTRODUCTION

The word "ethics" is derived from the Greek word "ethos" which stands for character and Latin word "moras" which means customs. These two words define how individuals choose to interact with one another. Thus, ethics is about choices. It signifies how people act in order to make the right choice and produce good behaviour.

The nature of the work carried out by accountants requires a high level of ethics. Shareholders, potential shareholders, and other users rely heavily on the yearly financial statements of a company as they can use this information to make an informed decision about their investments. They rely on the opinion of the accountants who prepared the statements, as well as the auditors that verified it, which presents a true and fair view of the company. Knowledge of ethics can help accountants and auditors to overcome ethical issues, allowing for the right choice which, may not be beneficial to the company but for the public who relies on the accountant/ auditor's reporting statement.

A number of factors influence the ethical behavior of an auditor in the course of his audit assignments: family background, religious belief, economic issues, familiarity issues and monitoring and regulatory issues (Adeyeye, Adeyemi, Otusanya, 2010). It is very important to monitor and positively control these variables for audit profession to sustain its relevance in a dynamic business world. Accounting profession code of ethics has overtime, moved from a focus on moral responsibility for a public good to that of technical specification for a product or service. This reflects a change in public values where technique has replaced character as an important virtue (Valayuthan, 2003).

2. LITERATURE REVIEW

Iyer Chandra Hariharan et. al (2013) have examined need for formulating an approach Framework for Ethical Accounting Regulations (FEAR) in Indian MSMEs, with a fusion of ethical aspects of accounting standards, based on research in Mumbai & suburbs. They have collected the data by framing a structured questionnaire. They have taken ethical attitude, ethical accounting in practice, ethical accounting regulation, business ethics & corporate social responsibility and ethical accounting regulatory audit as an aspects. They have applied ANOVA test to analyze the data. The results are presented in suitable hypothesis with relevant interpretations. They have concluded that there exist significant differences between the ethical aspects of accounting standards perception of respondents on the need for FEAR.

Akadakpo Bukola A. et. al (2013) have studied on the extent of ethical values reflected in professional practice of accountancy profession in Nigeria. They have collected primary data by means of questionnaire. They have used Z-score test to analyze the data. They have found that in the development of professional practices, compliance with well-grounded ethical values are a good prerequisite for an enduring practice and that penalties meted out to erring members are grossly inadequate.

Rajput Mahesh Singh (2014) has studied on some ethical issues concerning creative accounting. He has found that companies are forced and under pressure of performing well and this becomes the major motivator of creative accounting, to be competitive and be in the race of competition, companies are trying to do anything whether it is unethical. He has also found that this problem may exist due to lack of awareness and information level of investors.

Parmar Bhumika (2015) has studied on Ethical Issues in Accounting and Finance. She has focuses on the focused on the concept of ethics, various ethical issues in accounting and finance, and steps to prevent those issues. She has concluded that the ethical code of conduct is closely linked with the accounting profession. She has also mentioned that the ethics has become an essential part for accounting professionals.

3. STATEMENT OF THE PROBLEM

Users who take services from the accountants want efficient and reliable service from them and they are regarded as experts. In consulting about auditing, a set of accounts users want to be sure that their accounts convey a true and fair view of the financial position of a company. In other words, they are concerned about competence and standards. Any organization that lacks in ethical considerations, may not survive for a longer time to achieve its desired goals and objectives and that of its stakeholders also. Therefore, accountants as professionals are responsible for the preparation of financial reports in which they have to adhere to the codes of ethical accounting standards to produce reliable, relevant, timely, accurate, understandable and comprehensive financial reports (Ogbonna, 2010).

For the control, some accounting ethics must be kept by the auditor. Though there are good ethical guidelines, members fail to follow the rules. So the confidence of the investing public on the practicing accountants is being questioned. People asked why members break the rules and whether all that needs should be included under ethical guidelines or not? On these bases, this research study has been conducted.

4. OBJECTIVES

To analyze need for Ethical Accounting Regulations (EAR) in Navsari city.

To find out the most affective factor on EAR.

5. HYPOTHESIS

H_{01} : Framework for Ethical Accounting Regulations (EAR) is not required.

H_{02} : Independent variables (ethical attitude, ethical accounting in practice, ethical accounting regulation, business ethics & corporate social responsibility and Ethical accounting regulatory audit) collectively do not affect Framework for Ethical Accounting Regulations (EAR).

6. RESEARCH METHODOLOGY

Primary data has been collected by a structured questionnaire. Audit practitioners are considered as respondents. 50 respondents have been selected by applying simple random sampling method. The primary data has been collected by framing a structured questionnaire. Questions are related with five ethical factors namely Ethical attitude, Ethical accounting in practice, Ethical accounting regulation, Business ethics & Corporate social responsibility and Ethical accounting regulatory audit. These questions have been drafted in the questionnaire. The data has been analyzed by applying ANOVA test.

7. LIMITATIONS

Table No. 1.1 ANOVA test

| Level of ethical factors | | Ss | D.f. | Mss | F value | P value |
|---|----------------|--------|------|-------|---------|---------|
| Ethical attitude | Between groups | 052.11 | 02 | 26.15 | 111.28 | 0.00 |
| | Within groups | 165.25 | 47 | 00.29 | | |
| | Total | 217.36 | 49 | | | |
| Ethical accounting in practice | Between groups | 005.51 | 02 | 02.32 | 04.36 | 0.00 |
| | Within groups | 298.26 | 47 | 00.38 | | |
| | Total | 303.76 | 49 | | | |
| Ethical accounting regulation | Between groups | 010.27 | 02 | 05.52 | 23.02 | 0.00 |
| | Within groups | 189.46 | 47 | 00.32 | | |
| | Total | 199.73 | 49 | | | |
| Business ethics & corporate social responsibility | Between groups | 003.28 | 02 | 01.72 | 03.18 | 0.00 |
| | Within groups | 218.27 | 47 | 00.41 | | |
| | Total | 221.55 | 49 | | | |
| Ethical Accounting Audit | Between groups | 027.25 | 02 | 12.36 | 33.12 | 0.00 |
| | Within groups | 268.95 | 47 | 00.52 | | |
| | Total | 296.20 | 49 | | | |

From table no.1.1, it has been found that the null hypothesis is rejected and alternative hypothesis has been accepted which implies that Need for Ethical Accounting Regulations (EAR) is required. All the factors were found significant and relevant with respect to the objective of the research, and the need for the EAR in Navsari City.

8.2 REGRESSION ANALYSIS

To find out the most affective factor on need for EAR, regression has been run. Need for Ethical Accounting Regulations (EAR) as a dependent variable and ethical attitude, Ethical accounting in practice, Ethical accounting regulation, Business ethics & Corporate social responsibility and Ethical accounting regulatory audit as an independent variables.

$$Y = \alpha + \beta_1 \times X_1 + \beta_2 \times X_2 + \beta_3 \times X_3 + \beta_4 \times X_4 + \beta_5 \times X_5 + e$$

Where, Y= the dependent variable need for Ethical Accounting Regulations (FEAR), A is the Y intercept which means the value of Y when all the X values are zero, X₁= Ethical Attitude (EA), X₂= Ethical Accounting In Practice (EAIP), X₃= Ethical Accounting Regulation (EAR), X₄= Business Ethics & Corporate Social Responsibility (BE & CSR), X₅= Ethical Accounting Regulatory Audit (EARA), β= the coefficient of the independent variable, e= error

$$EAR = 0.054 + 0.335 EA + 0.185 EAIP + 0.189 EAR + 0.087 BE \& CSR + 0.212 EARA + 0.344$$

Table No. 1.3 Regression

| Coefficients ^a | | | | | | | | |
|-----------------------------|---|-----------------------------|------------|---------------------------|-------|---------|-----------------|------|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. | Null Hypothesis | Rank |
| | | B | Std. Error | Beta | | | | |
| 1 | (Constant) | .004 | .042 | | 0.056 | | | |
| | Ethical attitude | .323 | .015 | .335 | 18.20 | .00 | Rejected | 1 |
| | Ethical accounting in practice | .182 | .021 | .185 | 7.21 | .00 | Rejected | 4 |
| | Ethical accounting regulation | .189 | .019 | .189 | 8.21 | .00 | Rejected | 3 |
| | Business ethics & corporate social responsibility | .087 | .017 | .087 | 3.84 | .00 | Rejected | 5 |
| | Ethical Accounting Audit | .211 | .019 | .212 | 8.94 | .00 | Rejected | 2 |
| a. Dependent Variable: FEAR | | | | | | | | |
| Std. Error of the Estimate | | R | | R Square | | F | | |
| .344 | | .914 ^a | | .835 | | 1.425E3 | | |

The value of the multi co-relation coefficients between independent variables and dependent variable is 0.942. The value of R² (0.914) shows that 91% variance in EAR due to these factors. In another words, it can be said that 19% variance in EAR comes due to other factors. The value of adjusted R² (0.835) almost remains same which indicates that if the model will be derived from the population instead of the sample, it may be possible that no variation will be accord.

The study is limited to Navsari City only.

Only Audit practitioners have been considered for the study.

8. ANALYSIS AND INTERPRETATION

8.1 ANOVA - Test

ANOVA test has been run in terms of ethical factors, sources of variations, degrees of freedom, sum of squares, mean sum of squares, f value, p value and its significance on the need for EAR. The results are shown into following table.

Anova F- value 1.425E3 is significant ($p \leq 0.05$) means this model is good fit for regression. More over null hypothesis is rejected which implies that independent variables collectively affects need for EAR. To know the level of effect of these independent variables, results of t-test has been taken into consideration.

The standardized coefficients for the independent variable Ethical attitude has been the highest β_1 (0.335) and so it has been concluded that it has the strongest influence on need for EAR followed by Ethical Accounting Audit ($\beta_4=0.212$), Ethical accounting regulation ($\beta_5=0.189$), Ethical accounting in practice ($\beta_3=0.185$) and Business ethics & Corporate social responsibility ($\beta_3=0.087$).

9. CONCLUSION

From the analysis, it has been concluded that need for Ethical Accounting Regulations (EAR) is required in Navsari city. It has been concluded that Ethical attitude, Ethical accounting in practice, Ethical accounting regulation, Business ethics & corporate social responsibility and Ethical accounting regulatory audit are related with accounting ethics. It has been found from the regression test that Ethical attitude has the strongest influence on need for EAR followed by Ethical Accounting Audit, Ethical accounting regulation, Ethical accounting in practice and Business ethics & Corporate social responsibility. It is suggested that EAR will help to reduce unethical business practices which will in result have more social-economical welfare in the economy which will ultimately lead to economic growth and development.

REFERENCES:

1. Adeyeye, G.B., Adeyemi, S.B., Otusanya, O.J. (2010). Ethical challenges of practicing accountants in Nigeria. *Nigerian Journal Management Students*, 10(2), 290-326.
2. Bukola A. Akadakpo and Famous I.O. Izedonmi (2013). *Ethical Practices of the Professional Accountant in Nigeria. Research Journal of Finance and Accounting*, 4, 59-69.
3. Iyer Chandra Hariharan and Ravindran G. (2013). A Study on Ethical Aspects of Accounting Standards- An Exploratory Research In MSMEs. *Episteme: An Online Interdisciplinary, Multidisciplinary & Multi-Cultural Journal Bharat College of Commerce, Badlapur, Mmr, India*, 2(1), 6-11.
4. Ogbonna, G.N. (2010). Ethical considerations in corporate governance: A Survey of governance practices of corporate stakeholders in Nigeria. *International Journal of Business Behaviour Sciences Research*, 1(1), 91-108.
5. Parmar Bhumika (2015). Ethical Issues in Accounting & Finance. *Indian Journal of Research*, 4(5), 309-311.
6. Rajput Mahesh Singh (2014). Creative Accounting: Some Aspects. *International Journal of Business and Administration Research Review*, 2(4), 193-199.
7. Valayuthan, S. (2003). The accounting professions code of ethics: is it a code of ethics or a code of quality assurance. *Critical Perspectives on accounting*, 14, 483-503.