

Perceptions of accountants and auditors on  
professional ethics and professional skepticism in  
South Africa

By

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## Declaration

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- c) this dissertation does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged;
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## Dedications

I dedicate this dissertation to my sons, Tumelo and Nqubeko Mbanjwa, for being an inspiration to me - to be the best I can be.

## Abstract

Recent accounting scandals in big corporates and, indeed, government entities, have called into question the professional ethics of practicing accountants and auditors. For the auditors specifically, their ability to exercise the appropriate level of professional skepticism has also been an area of concern in South Africa and abroad. This study is informed by these occurrences and the effect this has had on the perceptions of the profession. There is limited existing literature on the perceptions of practicing accountants and auditors on how compatriots are maintaining the required professional ethics during the delivery of their services. The relevance of ethics to accountants and auditors is the professional requirement to frequently exercise ethical judgement. The aim of this research is to investigate and analyse the pressures faced by accountants and auditors in South Africa, to lower their professional ethics and professional scepticism when performing their professional duties. The study explores four research questions, under the themes: “Knowledge of the SAICA Code of Conduct”, “How accountants and auditors maintain the required ethical standards”, “Pressures faced to compromise on ethics”, and “Perceptions about compatriots”. A quantitative approach is adopted for this study, whereby an online questionnaire was completed by a sample of respondents. The population for this study is chartered accountants who are members of the South African Institute of Chartered Accountants (“SAICA”). This group of professionals includes both practising accountants and auditors – as the prerequisite to practise as an auditor in South Africa is registration with SAICA. The Statistical Package for the Social Science (“SPSS”) application was used to upload the data and analyse it into descriptive and inferential statistics. The data was organized into logical summaries - from which the researcher computed mean and modes. The findings firstly confirm that accounting and auditing professionals do have knowledge of the requisite behaviour and view themselves as being compliant. Secondly, the findings confirm the existence of pressures on accountants and auditors to lax their professional ethics and professional skepticism during the provision of their services. Finally, the results of the study provide evidence that accountants and auditors have a perception that fellow members of the profession do comply with the requisite professional ethics and professional skepticism. These

findings should be useful to regulators, government and executive leadership of accounting and auditing firms in that they have highlighted the existence of pressures to compromise professional ethics and professional skepticism. They have also provided an indication as to some of the areas where accounting and auditing professionals view themselves to be not in compliance with the requirements – such as annual attendance of ethics training.

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# CHAPTER ONE: INTRODUCTION

## 1.0 Introduction

This chapter introduces this study on the perceptions of professional accountants and auditors on professional ethics. Accountants and auditors are expected to adhere to high standards of professional ethics (and ethical judgement) during the performance of their professional duties. The chapter explains how the researcher will conduct the study and draw relevant conclusions.

## 1.1 Background

The accounting and auditing profession became a necessity with the growth of the principal-agent relationship. With evolution, there was an increase in the number of businesses that were no longer owner-managed. This meant that owners (principals) employed the services of managers (agents) to run businesses for them – thus creating the rise of the agency-principle problem (Abrahamson & Park, 1994). Accountants and auditors, as experts in financial reporting, have the prestigious role of protecting public interest (Tudor, 2013). Society relies on these professionals to conduct themselves with the highest level of ethical conduct. The inclination of managers to frequently act with self-interest (Bosse & Phillips, 2016a), has made it of utmost importance that accountants and auditors exercise professional skepticism during the provision of their professional services.

Recent accounting scandals in big corporate entities and, indeed, government entities, have called into question the professional ethics of practicing accountants and auditors. For the auditors, their ability to exercise the appropriate level of professional skepticism has also been an area of concern in South Africa and abroad. The relevance of ethics to accountants and auditors is the professional requirement to frequently exercise ethical judgement. According to Triyuwono (2015), the decision of taking a particular action, as driven by the internal part of the individual, is what is referred to as that individual's ethical judgement. In doing an ethical action, it is the individual's mental assessment of possible actions that leads the individual to take a specific, action in an ethical direction (Triyuwono, 2015). It is the predisposition that

leads the individual to do the right thing. Ethical judgment has been found to play an important role in the everyday work of accountants and auditors (Radloff, 2007). Ethical judgement equally forms part of the professional judgement that accountants and auditors have to exercise during the performance of their duties (SAICA Student Handbook, 2017).

Professional scepticism is a “multidimensional characteristic” comprising of six different behavioural characteristics (questioning mind-set; suspension of judgement; search for knowledge; interpersonal understanding; autonomy; and self-esteem) (Agarwalla, Desai, and Tripathy, 2017). It is about having a questioning mind-set. International Auditing Standards 200 defines it as an attitude of being alert to conditions which indicate possible existence of misstatement due to fraud or error (SAICA Students Handbook, 2017). According to Agarwalla, people with such a frame of mind are more likely to suspend their judgement until they have had sight of all the relevant information, instead of pushing for closure of the issue with the existing (often limited or incomplete) information. Professional accountants and auditors subscribe to the fundamental principles of Confidentiality, Objectivity, Professional Behaviour, Integrity and Professional Competence and Due Care (SAICA Student Handbook, 2017). Within South Africa’s context, SAICA issues pronouncements relating to professional conduct which chartered accountants in South Africa must comply with. Of particular importance and relevance is the CPC of SAICA (SAICA Student Handbook, 2017). This code contains 23 principles or behaviours that chartered accountants must uphold when performing their professional duties. On the other hand, IRBA is responsible for the regulation of auditors in South Africa, and also has a code specifically applicable to auditors – over and above the SAICA code of conduct. This code is known as the Code of Professional Conduct for Registered Auditors (SAICA Student Handbook, 2017).

Large parts of society are now questioning how professional accountants and auditors maintain the expected professional ethics and professional skepticism in the modern economy. Moreover, there has been an erosion of public perception (or confidence) about the quality and accuracy of the work performed by accountants and auditors – in the wake of recent financial scandals. Internationally, there has been a steady decline in the perceptions of the quality of the work produced by auditors (Lai, Sasmita,

Gul, Boon, Hutchinson, 2018). In the South African context, this decline in audit quality is evidenced by recent auditing failures such as those of South African Airways, African Bank, Oakbay Investments Group (i.e., Gupta companies) Steinhoff International, and VBS Mutual Bank.

Perceptions are considered relevant to the discourse on accounting and auditing ethics because the manner in which society views the profession is an important factor. The profession has to maintain public trust for it to provide the service and assurance that it purposes. Without the public trusting the authenticity of the service provided, the profession falls apart. Unethical conduct and lack of professional skepticism have the effect of weakening the justification for the existence of the profession – so does perception that there is unethical conduct or lack of professional skepticism (Caglio & Cameran, 2017).

## **1.2 Problem statement**

Financial reporting scandals bring doubt about the extent to which the active participants of the economic world (e.g. investors) can place reliance on the work of the accountancy profession (Tudor, 2013). In the past, society could generally place high reliance on the work of accountants – particularly in South Africa. However, the Chartered Accountancy profession has enjoyed a lengthy period of supreme respect from society in South Africa (SAICA, 2018). Accountants and auditors remain virtually unchallenged in terms of the quality/accuracy and truthfulness of their work. South Africa had enjoyed seven (7) consecutive years of being rated number one for auditing standards by the World Economic Forum - from 2011-2017 (Moneyweb, 2017). There seem to be more questions than answers now on the issue of the ethical conduct of accountants and auditors from the general society – as evidenced by social and commercial media platforms. Whether the issues raised by these sectors of society is due to lack of relevant information or not, is yet to be ascertained. It is then important to understand the perspective (or perceptions) of accountants and auditors when it comes to the issue of the ethics and professional skepticism in the accountancy profession. The perceptions of these directly affected individuals on the topic, will most likely provide society with a more concise picture of the extent of the problem at hand.

Achieving that will also help in the process of developing appropriate solutions in the accounting profession.

### **1.3 Aim of the study**

The aim of this research is to investigate and analyse the pressures faced by accountants and auditors in South Africa.

### **1.4 Objectives of the study**

This study seeks to achieve the following objectives:

- to ascertain the actual and perceived implementation of the required ethical behaviour by accountants and auditors,
- to prove the existence of a relationship between the ethical behaviour of accountants and auditors and the quality of work that is produced by the accountants and auditors, and
- to analyse the pressures faced by accountants and auditors to lower their ethical standards during the performance of their professional services.

### **1.5 Research Questions**

The study seeks to answer the following questions:

- Do accountants and auditors have full grasp and appreciation of the behaviours contained in the Code of Conduct?
- How does the accountant and/or auditor maintain the expected professional ethics and professional skepticism?
- In the wake of a rapidly evolving global system and general low/weak levels of global economic conditions, how do they maintain the expected professional ethics and professional skepticism?
- In the current economic climate, are accountants and auditors able to strike the required balance between their professional ethics and monetary business goals/targets?
- Do accountants and auditors believe that all their compatriots in the profession are equally implementing the required ethical behaviour in the execution of all their professional duties, as required by the Code of Conduct?

## **1.6 Assumptions of the study**

The following assumptions are applicable to the study:

1. Participants will provide honest responses to the questions contained in the questionnaire.
2. Responses provided by the participants are representative of the perceptions of majority of professional accountants and auditors in the profession.
3. Ethical conduct forms an integral part in the professional services performed by accountants and auditors.

## **1.7 Significance of the study**

There is empirical evidence which supports the idea that there is cause for concern regarding the decline in professional ethics and professional skepticism applied by professional accountants and auditors during the provision of their services (Bhasin, 2015; Caglio & Cameran, 2017; Everett, Friesen, Neu, Shiraz, & Everett, 2018). Various factors have been identified as playing a role in this decline, with the self-interest or commercialisation (Carnegie & Napier, 2010) of professional accountants and auditors being most prevalent. This study will add to the limited body of knowledge on perceptions of accounting and auditing professionals on compliance with requirements of professional ethics and professional skepticism. There is currently no known study of such a nature – whereby perceptions are sourced from existing members of the South African chartered accountancy body. The study will be useful to regulators, government and executive leadership of accounting and auditing firms. It should add to existing conversations on the current topical issue of ethics in the profession. Most importantly, it should provide some information on what can be done to prevent some of the accounting and auditing failures as seen in the past decade. By highlighting the pressures faced by accountants and auditors to compromise ethics, the study will assist regulators to revise the Code of Conduct in order to provide stronger guidance to the professionals during the performance of their duties.

## **1.8 Outline (or structure) of the dissertation**

*Chapter 1* provides an introduction for this research study and presents the problem statement. It discusses the motivation of the study and what the study aims to achieve. In addition, it proposes the contribution to the current discourse in the topic of ethics

of accountants and auditors in South Africa. *Chapter 2* then discusses the theoretical framework and the empirical literature on the topic of this study. The chapter analyses what other scholars have found during their study of the topic or similar topics. The chapter aims to present some of the existing literature on the key themes which will be examined by this study. This includes areas such as the pressures faced by accountants and auditors to compromise on ethics, and perception on the ethical conduct of accountants and auditors. *Chapter 3* is the methodology chapter which describes the research design and the approach that was used. It sets out the data collection techniques and tools, the data analysis and data management for this study. *Chapter 4* is the data presentation and analysis chapter – where the data collected in chapter 3 is presented and analysed. The findings of this study are dealt with in this same chapter.

*Chapter 5* is the conclusion chapter for the study. It reflects on the significant findings of the study. The chapter further discusses the limitations of the study. Finally, recommendations for further research on the topic are made in this chapter.

**Table 1.1 Structure of dissertation**

<b>CHAPTER</b>	<b>TOPIC</b>
Chapter 1	Introduction of the research study.
Chapter 2	Literature review.
Chapter 3	Methodology (research design and approach).
Chapter 4	Data presentation and analysis.
Chapter 5	Limitations, recommendations and conclusion.

### **1.9 Chapter Summary**

This chapter has introduced the topic of the perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa. The chapter has provided background information that sets the foundation for the purpose of the study and the problem statement. By obtaining perceptions of currently active members of SAICA, this study will add to the body of knowledge on the extent of ethical challenges facing the profession. Findings of such a study can be useful to SAICA by helping to inform future amendments to the code of conduct for chartered accountants and perhaps even the educational requirements – as SAICA is currently reviewing the

curriculum that is offered at higher education institutions for prospective chartered accountants.

The next chapter will deal with the theoretical framework and empirical literature on the discourse around professional ethics of accountants and auditors.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.0 Introduction**

This chapter will summarise the theoretical and empirical evidence on the topic of professional ethics and professional skepticism of accountants and auditors. It is important to provide insight into the existing body of knowledge of the topic of ethics and some of the key guiding theories. Existing scholarly work will lay a solid foundation and setting for this current study by highlighting the gaps that create a need for this study. The ethics universe in South Africa for accountants and auditors will be discussed in this chapter. The literature review will follow the key themes of: (1) knowledge of ethics (2) how accountants and auditors comply with the code (3) pressure to compromise on ethics (4) perceptions on ethical conduct of accountants and auditors.

### **2.1 Theoretical framework**

The history of the profession of accounting and auditing can be easily traced to the agency theory. The separation of the owners of capital for a company (i.e., shareholders) from those actually managing the daily operations of the company (i.e., management) brings about the principal-agent relationship (Bosse & Phillips, 2016). More formally, in the agency theory, a party (the principal) engages another party (the agent) when the first party believes this will birth the creation of value (Bosse & Phillips, 2016a). Working on the assumption that the agent and principal are self-interested value-maximizers, the fundamental agency problem arises whereby the two can have differing interests and the agent is in a more informed position than the principal (Bosse & Phillips, 2016).

Another prominent theory in the scholarly work on accounting and auditing is the stakeholder theory. The central idea of this theory is that an organisation's success and sustainability is dependent on its ability to effectively manage its relationships with relevant stakeholders (Freeman & PHillips, 2017). As often preached by the regulatory bodies for accounting (SAICA) and auditing (IRBA) in South Africa, accountants and

auditors have as a primary task the protection of public interest. They have to look out for the best interest of the public – the greater good. This is where the stakeholder theory becomes relevant as it provides for accounting and auditing professionals, through their conduct, to effectively manage all relevant stakeholders. When there is a rise in cases of fraudulent financial reporting and incorrect audit opinions, it does not speak positively for the relationship of accountants and auditors with major stakeholders such as government, investors and communities.

A very close relative of the stakeholder theory is the Public Interest Theory. The key idea of this theory is that regulation seeks to protect public interest (Hantke-domas, 2003). Within the accounting and auditing professions, regulators play a central role as members of the profession are expected to subscribe to certain rules and regulations (for example, a code of ethics) which distinguish the profession from others. These rules and regulations often have the protection of public interest as a fundamental objective.

Given the abovementioned theories, this study is underpinned by the agency theory. The study seeks to examine the challenges faced by accountants and auditors in complying with the fundamental ethical principles which they are expected to be mastering. The threats to compliance with the fundamental ethical principles arises as a result of the problem of self-interest. The failure to resist pressure to compromise on ethics is most probably caused by these, supposed, protectors of the public, choosing their own self-interest over the greater good of the public. The next section provides a discussion on the existing empirical literature on professional ethics and professional scepticism as underpinned by the agency theory.

## **2.2 Professional ethics and professional skepticism: Compliance and pressures**

### **2.2.1 Introduction**

Ethical concerns vary and the list seems to be growing longer – throughout the world. Akenbor (2015) identified ethical breaches such as inflated contracts, falsification of financial records, embezzlement, fraud, and bank distress as some of the common ethical concerns. Most prevalent reasons for ethical breaches were greediness and self-interest, pressures from employers/clients, the price of ethical behaviour (the fear

of losing your job/work if you act in an ethical manner), poor societal values, lack of complete financial information and a lack of a clearly defined ethical code of conduct (Akenbor, 2015). Similarly, Tsunogaya, et al., (2017) found that auditors are faced with pressures when making judgements during the provision of their services. Equally, accountants and auditors are faced with internal pressures which arise from the employer's business goals (Lai et al., 2018).

### **2.2.2 Knowledge of ethics**

In South Africa, the code of conduct for accountants and auditors is not only the foundation, but also the reference point for instances where a professional is in doubt as to the appropriate cause of action (IASB, 2017). It thus becomes necessary to present an evaluation of what scholars have found in their studies of codes of conduct. There needs to be awareness regarding the common pitfalls found in implementing professional codes of conduct. As the code of professional conduct for accountants is simply a framework that follows the conceptual approach to ethical dilemmas, it is worthwhile to analyse literature on the strategies and tools these professionals have utilised in implementing the code.

#### **2.2.2.1 The code of ethics**

There are a variety of factors that can affect the implementation of a code of ethics. The code of ethics serves as the framework and foundation for the expected ethical conduct of chartered accountants and auditors. Culture and socioeconomic factors have been examined in the past in this regard (Cohen, Pant, & Sharp, 2018; Helin & Babri, 2015). There is an important role played by culture in defining ethical standards (Cohen et al., 2018). Culture is the fundamental beliefs that operate subconsciously (Cohen et al., 2018). The role and functioning of a profession in any given country is influenced, to some extent, by the level of socioeconomic development in that country. This is important because the current code of professional conduct applicable to chartered accountants in South Africa is significantly informed by the international code of conduct for accountants and auditors. This international code, was designed in the western (developed) world whereas South Africa is still a developing country (Cohen et al., 2018).

Akenbor (2015) also found that there are some ethical challenges which are unique to developing countries. High levels of poverty and inequality are examples of unique circumstances which confront developing countries. This may thus explain some of the root causes behind the current perceived failure of South African chartered accountants to adhere to the ethical conduct required by the code of conduct. The recent extremely low levels of economic growth - below 3 percent in 2017 and 2018 (Trading Economics, 2019) – could have also led to compromises in ethics as the cost of compliance became too high. Cohen et al.(2018) suggest that the code must be aligned to current practice and should take into account the resources of the professionals who must comply with it.

The fundamental principle of professional due care assumes that there is sufficient availability of technically astute professionals in the country as it requires professionals to desist from executing services which they are not adequately skilled to perform (Cohen et al., 2018). In the South African context – with the history of segregation and the need for economic redress – perhaps there is a need to examine the impact this economic redress is having on the technical competence of professionals in the accounting field. The requirements of the existing internationally-inspired code of conduct may be a step too high in our developing country (Cohen et al., 2018) and could thus explain the cases of gross non-compliance. Helin & Babri (2015) similarly support the notion that a code can be interpreted differently in different organisations and in different regions. Results of their study conducted in a setting of a company in Eastern China, but for a code developed in Sweden, demonstrate how, in practice, the translation of the code can be negotiable (Helin & Babri, 2015). This is so because the company in Eastern China applied certain aspects of the said code differently to what users in Sweden did. Of course, for the most part, users in Sweden applied the code as was intended in its design.

It is also worthwhile to consider the necessity of a code of ethics in a profession where professional judgment is frequently exercised (Higgs-kleyn & Kapelianis, 1999). Where a code of ethics does not exist or is not of the required standard, it has the effect of compounding any ethical challenges being experienced by a profession (Pattison & Wainwright, 2010). A study to this effect showed that professionals are of

the view that codes are needed and that professionals are reasonably aware of the requirements of such codes (Higgs-kleyn & Kapelianis, 1999). Despite such knowledge, respondents (particularly lawyers) believed that their fellow members often take actions which are not in conformance to the requirements of the codes (Higgs-kleyn & Kapelianis, 1999). This perception of professionals regarding their peers' compliance with ethical requirements is interesting and will be considered further in the analysis of results for this study.

Notwithstanding the high awareness that professionals have of the requirements of the code of ethics and the consequences for non-adherence, there seems to be continuing non-compliance (Higgs-kleyn & Kapelianis, 1999). It is these instances of non-compliance that inspire further studies of the challenges faced by accountants and auditors in complying with the requirements. There is no empirical evidence that has suggested lack of awareness or difficulty of interpretation with respect to the code. So it continues to be intriguing to examine the root causes for failure to adhere to it. This is precisely what this study aims to achieve: present further empirical evidence behind the failure to comply with the code and thereby add to the existing discourse – and perhaps inspire further studies which will build on the current body of knowledge.

Interestingly, Radloff (2007) found that very strong support exists for the current SAICA Code of Professional Conduct – in terms of its relevance robustness. Building on this foundation is important as part of the process to restore an ethical culture in the profession. There is also evidence that chartered accountants believe that personnel must go through ethics training (Radloff, 2007) – which is currently the case, per the continuing professional development policy of SAICA.

#### ***2.2.2.2 Ethical conduct and ethical judgement***

It is imperative to understand what it means to be ethical in this highly regarded field of accountancy – and indeed auditing. Inevitably, different individuals will have different perspectives as to the type of conduct which can be considered to be ethical (Cohen et al., 2018; Davidson & Schwartz, 2001). To date, accounting literature has had to primarily borrow from the field of philosophy in this regard as there is limited accounting literature on this aspect (Boyce, 2014). Boyce (2014) asserts that

increasing standardization, commercialisation, deindividuation, and decline in values can be countered through the development of approaches that will emphasise the complexities involved in ethical judgement.

Rabin (2005) found that a significant relationship exists between auditors' evaluation of the relevance and reliability (but not ethical judgement) of reported information and their views to fraudulent financial reporting. It would thus seem that ethical judgment does not play a material role in auditors' attitudes towards possible fraudulent financial reporting. Radloff (2007) suggests that there is a significant relationship between the importance that South African chartered accountants attach to SAICA's Code and the accountants' professional judgment. A significant relationship has been found to exist between how an individual perceives the corporate ethical environment and that individual's ethical judgement (Radloff, 2007). This provides evidence that it is necessary to consider the relevance of ethical leadership when tackling a topic on professional ethics.

#### ***2.2.2.3 Ethical leadership***

Ethical leadership is another facet that has been found to be relevant in the pursuit of consistent ethical conduct within an organisation, and indeed a profession (Wright, 2014; Zheng, D., Witt, L., Waite, E., 2015). In another study on ethical leadership within the accountancy profession, Copeland (2015) found that transformational and ethical leadership behaviours make objective and substantial contributions to defining leader effectiveness. Other scholars such as George (2003) and Harrison (2005) have suggested that a leader's ethical behaviour plays a positive role in averting ethical leadership failures.

Ethical and transformational leaders within the accountancy profession are seen as more effective (Copeland, 2015). Similarly, in the public sector, ethical leadership was found to have a positive impact on employees (Wright, 2014). Specifically, it was found to increase the reporting of ethical problems (Wright, 2014). Ethical leadership has also been found to have a positive effect on awareness of ethical issues in emotionally

exhausting jobs (Zheng et al., 2015). This is relevant to the accounting and auditing profession because these professionals are often faced with ethical dilemmas and their jobs often involve confrontations.

### **2.2.3 How accountants comply**

It has been established in the preceding sections that auditors and accountants have to comply with the CPC during the performance of their duties. Further to that, accounting and auditing professionals themselves have been found to appreciate the importance and relevance of such a code (Cohen et al., 2018; Higgs-kleyn & Kapelianis, 1999). In South Africa, the CPC is the foundation of the profession as it provides the ethical principles. The next step is to understand some of the important aspects and intricacies involved as accountants and auditors try to adhere to the requirements of the code. Ethics are such a sensitive topic and it is expected that there would be numerous dynamics involved in trying to adhere to the ethical requirements of a profession.

#### **2.2.3.1 Ethical sensitivity**

The extent to which an accountant is sensitive to the existence of an ethical situation does play a role to the ability to respond to the ethical situation. There exists a difference between practicing accountants and accounting students, in this sensitivity. According to Massey (2017) in their review of awareness of ethics, students doing accounting are more sensitive to the existence of potential ethical situations than their practicing counterparts. That study by Massey was conducted in the context of what is commonly referred to as earnings management – a term used to explain the act of manipulating financial earnings of an entity. The limitation for practicing accountants is possibly that they have to serve the organization they work for, whereas accounting students are purely focused on complying with the Code of Conduct for professional accountants. This shows that financial pressures do play a role in how accountants implement the required ethical conduct. Lastly, the study found that practicing accountants whose organizations include both financial and non-financial targets are more sensitive to ethical situations than those in organizations where targets are largely of a financial nature.

The ethical challenges facing auditors, when presented with questionable ethical instances, do test the effect of their own ethical beliefs and moral standing, which as a result influences their behaviour and judgement (Kung & Huang, 2013).

### ***2.2.3.2 Ethical beliefs and personal values***

Ethical beliefs and moral philosophies are a feature of ethical conduct which some scholars have identified as fundamental determinants of how accountants and auditors practically implement the code. In fact, Kung & Huang (2013), argue that a person's moral philosophy is the overriding factor in how one views ethics, and how they make ethical judgments. Personal values are also an important part of the processing of ethical issues by accountants and auditors. However, there is little evidence that value preferences are predictors of ethical beliefs (Kung & Huang, 2013).

Contrary to this, Elias (2002) asserts that personal moral philosophies and social responsibility play a key role in determining how chartered accountants assess questionable ethical conduct by management. Relativist auditors were more likely to conduct that contravenes moral norms, while auditors who are idealists would most probably reject such conduct (Kung & Huang, 2013). Idealism is found to be less welcoming towards dubious conduct and illegal activity of clients whereas this is not the case with relativism (Kung & Huang, 2013). Therefore, empirical evidence shows the central role of mediation, between auditors' personal values and ethical judgment, played by moral philosophy (Kung & Huang, 2013). Other studies have found that personal beliefs and philosophy do not always match the ethical values of the profession (Greene, 1996). An individual's cultural background and values is said to affect their ethical decision-making (Smith & Hume, 2005). It is only when auditors find themselves in the correct standing of the scale of ethics that their conduct becomes ethically appropriate (Kung & Huang, 2013).

Personal value preferences do not affect how the auditor views the gravity of a particular ethical challenge (Shafer, Morris, & Ketchand, 2013). Nonetheless,

discernment of moral vigour affected both ethical decisions and behavioural objectives (Shafer et al., 2013). Empirical evidence presented by these scholars also present a viewpoint that personal value preferences do not influence ethical decision-making in auditing (Shafer et al., 2013). Similarly, Davidson & Schwartz (2001) concur that ethical judgments are affected by personal values – particularly during instances of ethical dilemmas. Further to this, the organisation's ethical culture and the rules indirectly affect ethical judgments (Davidson & Schwartz, 2001). As purposed by the socialization theory, personal values will eventually align with the values of the organisation (Davidson & Schwartz, 2001). This is supported by the usual occurrence of firms grooming their personnel to conform to the organizational environment, and promotion of individuals with the firm who fit into the organisational culture (Davidson & Schwartz, 2001).

Flory et al. (2018) conclude that the three dimensions of moral equity, relativism, and contractualism provide a big portion of the various elements of the decisions used by the individual to make ethical judgments. These scholars propose the multidimensional measure as a potentially useful tool for directing research on why accountants make certain ethical judgments (Flory et al., 2018). This type of research can be very useful as current literature on the ethics of accountants should be directed at examining how these professionals make their ethical judgments (Flory et al., 2018). There is no question that there is a problem and thus solutions have to be sought. Part of deriving the answers to the ethical challenges faced by the profession will certainly involve analysing the ethical judgments process of members of the profession.

### ***2.2.3.3 Spirituality and ethics***

An important element of ethics, as found in previous studies on ethical judgment, is the spirituality involved in ethics. Triyuwono (2015) argues that there are three levels or types of people: homo economicus (they are economized, placing more emphasis on self-interests and maximizing personal wealth), sociologus (they pay no attention to money, but care for society and public good), and homo spiritus (they have strong religious and spiritual convictions). The existing professional code of ethics are proving not to be enough as they rely on the accountant's rational consciousness – the intellect

of the accountant. What is required is divine consciousness. That is to say, the 'perfect human being'. It is the state when the human is totally submissive to the will of God, goes beyond the human ego, and trusts heavily on the divine will of God to guide them in making ethical judgments and in their compliance with the ethical requirements of the profession. It is then proposed that the fundamental principles of the Code of Ethics be extended to include sincerity, love and divine will (Triyuwono, 2015). When these are included in the Code, accountants will always be led by sincerity, love and divine will in performing their professional duties and exercising professional judgement.

The ethical discourses of the accounting profession are becoming increasingly secular (Everett et al., 2018). Requirements which are rules-based, and links to concepts such as independence have replaced previously dominant Christian beliefs ('one's calling,' 'the Ten Commandments,' etc.) (Everett et al., 2018). Within the Christian fraternity, the message of Jesus has been divided into two, but despite this, auditors are strive to uphold both variations: the first, geared towards a gospel of truth (focusing on 'faithful representation' and public interest) and the other promoting a gospel of prosperity (emphasising independence and providing information said to be 'decision-useful') (Everett et al., 2018). The scholars assert that it may bode the auditing profession well to rather more seriously specify and articulate how it aims to achieve ethics instead of glorifying the concept of independence.

#### ***2.2.3.4 Governance and ethics***

Lasting solutions can be devised through improving the awareness of ethical issues (Bhasin, 2015). A value-based vision of leadership, integrated and effective governance will go a long-way in creating good corporate governance (Bhasin, 2015). Helin & Babri (2015) assert that ethics face the risk of being grossly undermined when contractual agreements and business efficiency direct audits. Further to that, purchasing power tends to have a strong influence on setting ethical tone of a business relationship. Empirical evidence suggests that the code of ethics is somewhat toned down in relation to aspects of efficiency and quality (Helin & Babri, 2015). All of this demonstrates the impact of finances on ethical standards.

According to Avram (2012), in the review of accountants' ethics in the context of corporate governance, accounting scandals lead to a decline in public confidence and in the demand for the services provided by accountants. The study identified that the fundamental principles of corporate governance imply the need for accountants to have credibility, exercise professionalism, and perform services with high quality and inspire confidence and trust in the public they serve. In the current economic climate, ethics are identified as a pre-requisite for sustainable development. Regulatory bodies should have the necessary resources, authority and integrity in order to effectively discharge their duties and positively influence the redress of ethical conduct in the profession.

In studying disciplinary cases of the misconduct of members before and after the establishment of Canada's accounting body, Mescall, Phillips, and Schmidt (2017), found that there was an increase in the number sanctions handed down after the establishment of the body. This is consistent with previous studies in the United States which found a similar trend, and also found that many of the cases dealt with by the regulatory body were cases of misconduct against colleagues rather than the public. In keeping with the notion of protecting the profession's ability to self-regulate, accounting bodies throughout the world often have fewer cases of misconduct against the public. A picture is thus presented of a profession that is more interested in protecting its own private interest rather than the public interest. The study also finds that there is an increase in the severity of the punishment, after the establishment of an accounting body.

The reporting of the outcomes of disciplinary cases also increases, however, that reporting is mostly in internal publications (publications available to members only). Sanctions are likely to be of a rehabilitation nature after the establishment of the accounting body and there is a greater possibility of the culprit's conduct being monitored thereafter. In contrast, Kung & Huang (2013), suggest that no legislation has sufficient power to prevent misdeeds when one's moral compass has been corrupted. There comes a low point where strengthening of regulations can no longer be an effective preventative measure. The individuals ethical code represents the last

line of defence with respect to ethical conduct (Kung & Huang, 2013), and not regulation.

#### **2.2.3.5 Social responsibility**

Placing more emphasis on long-term sustainability, being responsible towards society and idealism are positively associated with what is perceived to be ethical conduct (Elias, 2002). Carson & Carson (2003), however, suggest that recent corporate scandals reveal deep weaknesses in the stakeholder theory regarding the corporations' social responsibilities. Specifically, this theory fails to prohibit fraud and deception (Carson, 2003). This is an obvious weakness of standard versions of the stakeholder theory, which is, however, easily remedied by adding clear prohibitions against deception and fraud (Carson, 2003). Further to this, recent occurrences point out the theory's impractical expectations for business executives as valuable participants in developing society and in promoting ethics (Carson, 2003). These events bring doubt about the purest forms of the invisible hand theory (Carson, 2003).

Companies with more of a short-term focus on profit maximizations are associated with less effective ethical leadership (Bobek, Dalton, Daugherty, Hageman, & Radtke, 2017). Such companies are less likely to place importance on ethical values. These companies also do not usually comply with the interests of various stakeholders (e.g., customers, suppliers, and employees), in terms of ethics (Bobek et al., 2017). These scholars suggest that companies whose main focus is immediate profits usually have sub-standard ethical environments (Bobek et al., 2017).

Belle (2017) proposes the stewardship theory as most suitable to more considerate business ethics that come from the culture of an enterprise. Organisations should promote a culture and vision of "doing the right thing" (Belle, 2017). Moreover, extra time should be spent by organisations in actually finding out who they are and what they are about - this will assist in defining and shaping the moral compass of the organisation.

### **2.2.3.6 Gender and age**

Scholars have studied the profile of accountants, in the context of ethical decision-making. Hottegindre, Loison, and Farjaudon (2017) explored the differences in the ethical decisions between males and females. The ultimate finding was that there is indeed a difference between males and females when it comes to issues of ethics. The greater attention to detail makes women to detect errors more than their male counterparts (Hottegindre et al., 2017). Consequently, men tended to be more efficient in terms of saving time. Where there are limits to the amount of time available, men become better than women at picking up errors (Hottegindre et al., 2017).

In terms of studies conducted in psychology, men tend to engage in more risky conduct than women. Male auditors were found to be more likely to believe explanations provided by management than their female counterparts (Hottegindre et al., 2017). There is thus a suggestion that male auditors have a lower awareness of ethical matters than their female compatriots. Similarly, Weeks, Moore, Mckinney, & Longenecker (1999) concur with this suggestion, in their study which found that males were less stricter than females when it comes to ethics. Further to this, empirical evidence offers an indication that a large difference exists in ethical judgment as professionals gain more experience in their careers. Weeks et al. (1999) assert that the more experienced professionals exercise better ethical judgements than their less experienced counterparts. This is supported by other studies on gender differences, hence confirming the contention of gender socialization theory that different ethical standards are brought to the work environment by men and women (Weeks et al., 1999).

Examining ethical judgment also requires a consideration of the impact of career stage. As stated above, scholarly studies have found that ethical judgements improve with experience (Weeks et al., 1999). Similarly, age is a variable that may substantially influence the improvement of levels of moral reasoning among individuals (Espinosa-pike & Barrainkua, 2016). However, there is no consensus amongst existing literature as to the impact that age or career stage have on the ethical judgment of professionals.

Overall, the empirical results of various existing studies are contradictory (Espinosa-pike & Barrainkua, 2016). Contrary to that evidence, Elias, (2002) suggests that

students tend to view accounting manipulations, such as earnings management, in more serious light than their professional counterparts. This is supported by Radloff (2007), who found that the younger generation of accountants tends to take a stronger ethical stance.

#### ***2.2.4 Pressures to compromise ethics***

This section looks at the literature on the pressures faced by accountants and auditors to lax their professional ethics and professional skepticism during the provision of services. Broadly, the pressures faced are not only external (from clients), but also seem to be internal (from organisational goals). This area of research is very important in trying to understand the root causes for recent accounting and auditing failures. Regulators such as SAICA and IRBA need to consider this existing literature when constructing preventative measures against accounting and audit failures in the future.

##### ***2.2.4.1 Introduction of the ethical environment in which accountants and auditors operate***

According to Tsunogaya, Sugahara, and Chand (2017), in their study of the impact of social pressures on the auditor's judgment, in the Japanese context, there is evidence that the pressures do affect the judgment of auditors. Pressure to obey the audit partner's instructions even if the auditor does not agree with them ethically, was found to have a material influence on the eventual judgments made by auditors in carrying out their work. The pressure of doing what other colleagues are doing (conformity pressure) was found to not have a material impact. This was said to be mainly due to the fact that colleagues do not have as much authority and influence as partners do. The study also found that the existence of professional commitment and organizational commitment have the effect of reducing the impact of social pressures on the auditor's judgment. As such, there should be greater efforts channelled towards developing stronger levels of the professional commitment of auditors.

The detection and disclosure of irregularities and errors also demonstrates an auditors attitudes and ethical values; which eventually impacts the quality of the audit (Lai et al., 2018). The professional and ethical pronouncements of the accounting and

auditing profession dictate that auditors need to exercise professional due care and be proficient in the execution of their audits (Lai et al., 2018). It is likely that these professionals will be confronted with pressures from clients and their own employer (Espinosa-pike & Barrainkua, 2016). Audit budget and time budget pressures are amongst the common pressures confronting auditors in practice. In general, audit time budget pressure occurs when insufficient audit hours are budgeted for the use by auditors in the execution of specified audit procedures (Margheim, Kelley, & Pattison, 2005), while time deadline pressure manifests when a deadline for completion of a task is specified and it is onerous to conclude the specified tasks by the deadline (Margheim et al., 2005). Margheim et al. (2005) suggest that when an auditor is faced with any one of these time pressures it does impact on their ability to execute their service efficiently and effectively. Consequently, we can deduce that budget pressures do have an impact on the auditors' ability to comprehensively apply themselves to the work they do – including ethical judgments (which are an everyday occurrence in the profession).

Auditors face many pressures during the performance of their duties. These pressures often play out during audit fee negotiations and in the influence which clients usually have over the auditor's judgment of accounting issues (Espinosa-pike & Barrainkua, 2016). Empirical evidence confirms that auditors do perceive pressures that exist in their delivery of professional services (Espinosa-pike & Barrainkua, 2016). In the study of pressures faced in audit conflict, Espinosa-pike & Barrainkua (2016) conclude that despite pressures from clients being the most common, other pressures have been noted in other studies.

#### **2.2.4.2 Public interest**

In investigating the dilemma of balancing the private and public interest for accountants, Tudor (2013), defined what exactly 'public interest' is, and analysed the social role of accounting. Public interest can be explained as the collective welfare of the people and institutions. The legitimacy theory says that the community legitimises an organisation or a profession only when that organisation's values are in agreement with that community's values (Tudor, 2013). In line with the legitimacy theory, there is

a social contract between the public and accountants – and violation of this social contract through unethical conduct does threaten an accounting firm's sustainability.

The fall of Arthur Anderson is a classic example in our lifetime of a case where the social contract is terminated when there is failure to meet society's expectation. At present, there has been numerous instances where the pursuit of quick profits has taken precedence over the public interest. Regulatory accounting bodies have thus taken active steps to strengthen their accountability to the public. Auditing standards have also been revised, for example, to strengthen independence of auditors.

Espinosa-pike & Barrainkua (2016) assert that there has been a major shift in the culture of audit firms as they have increasingly prioritised business goals. At the same time, many of these firms still present the picture of the prioritising the public's interest in conducting business (Espinosa-pike & Barrainkua, 2016). Auditors who work for medium sized firms and who are less experienced perceive the existence of these pressures (i.e., the pressure to prioritise quick profits over public interest) the most (Espinosa-pike & Barrainkua, 2016). The resolution of these pressures to an extent lies in legal regulation and the influence of the audit firm (Espinosa-pike & Barrainkua, 2016). Auditors consider yielding to the pressures from the firm more ethically acceptable compared to client pressures (Espinosa-pike & Barrainkua, 2016).

#### ***2.2.4.3 Performance of quality services***

The quality of the service provided by accounting firms has also been found to be directly linked to the ethical behaviour applied in delivering that service. State (2017), in her review of the link between ethical behaviour and the provision of quality services found that all respondents (who were all practicing accountants and auditors) asserted to not only know the ethical requirements, but also said they were consistently applying them in the provision of the services. Interestingly, looking at the responses received during the study, the fact that all respondents claimed to have never been faced with a situation that threatened their ethics, is in itself a matter that perhaps requires further evaluation. Auditor busyness is often a root cause for low audit quality (Lai et al., 2018).

There is a significant positive relationship between an auditor's total number of clients in a given year and their client firms' total and discretionary accruals (accruals are a high risk audit area – often containing misstatements). Accordingly, this suggests that auditors with multiple clients perform poorer quality audits (Lai et al., 2018). For this reason, auditors could face situations where they have too many clients at the same time – which could ultimately result in lower audit quality. This conduct would amount to a violation of the requirement for auditors to exercise skill and due care in the delivery of their services per the ethical pronouncements of accountants and auditors (Lai et al., 2018). The authors suggest, as a possible solution to improving audit quality, “capping” the total number of audits a single audit partner can execute annually.

Prevailing economic conditions in the auditor's operating environment will unquestionably affect the auditor somehow (He, Kothari, Xiao, & Zuo, 2017). This is supported by (Akenbor, 2015), who found that prevailing economic conditions had a substantial role in the practical application of ethics. This finding perhaps helps to explain why we experience cycles of increased questionable conduct by accountants and auditors. This could, perhaps, help regulators to predict the levels of ethical compliance that certain generations will have. It could go a long way to risk-profiling auditors as far as inclination to partake in unethical conduct is concerned. This would result in proactive action from regulators, whereas, recent history has shown them to be reactive when it comes to issues of unethical conduct. A few years ago, it was not often that one heard of ill-discipline or unethical conduct from accounting and auditing professionals. These individuals had been idolised by society as the epitome of ethical professionals.

Empirical evidence also demonstrates that audit partners who began their career during difficult economic conditions issue audit findings more often (He et al., 2017). Consequently, such auditors are also more likely to issue audit opinions which are not clean – which explains the lower likelihood of engaging in fraudulent financial reporting by companies audited by these auditors (He et al., 2017). It is worth making note that the evidence suggests that the early stages in the career of auditors are vital in forming

an ethically sound professional. Audit firms need to invest specific resources during that period of an auditor's career. Leaving the development for later stages can be detrimental not only to the auditor and the firm, but more importantly to the profession and public interest.

#### ***2.2.4.4 Self-interest and commercialism in the profession***

The pressures faced by accountants and auditors can be associated with the phenomenon of self-interest. Self-interest is the fundamental agency problem. Remuneration schemes can create unintended effects of encouraging professionals to perform unethical actions (Carson, 2003). Professionalism prioritises being technically astute and guarding the interest of the public, while a commercialism places emphasis on income generation and profit-maximisation for the firm (Bobek et al., 2017). Bobek et al. (2017) contend that professional accountants working in commerce (i.e., industry) are faced with significantly weaker ethical environments than their compatriots in public accounting firms. This can somewhat be expected as accountants in commerce are likely to be operating in spaces where there is little emphasis on high ethical standards. It can create environments where the attitude of management is one of "win at all costs", or "do whatever it takes to bring it home".

Further efforts should be spent in understanding ethical environments faced by accountants in practice. The growth in commercialisation is thus, undoubtedly, amongst the list of root causes for the recent lapses in accounting and auditing. As agreed by various studies, audit quality, and consequently public interest, have been found to be compromised in the pursuit of self-interest – the cornerstone of commercialisation.

The existing rise of commercialisation of the accountancy profession has established a new trend of personality for accountants. Accountants were historically stereotyped as boring, upright, reliable, independent and respectable (Carnegie & Napier, 2010). The new stereotype created in the 21<sup>st</sup> century is one of a business professional who seeks to please the client (Carnegie & Napier, 2010). This, again, could perhaps be a clue as to the root cause for the recent accounting and auditing failures which have damaged the long-standing public trust of the profession.

Lail et al. (2017) argue a case of emphasis on character traits of individuals who practice as professional accountants. They propose that virtues professionalism will help to restore the high moral standing and public confidence of professional accountants. Commercialism and increasing legislative requirements has somewhat led to the continuing decline that the world currently observes in the ethics of professional accountants. What is required is not more legislative or regulatory requirements, but rather a redemption of the professional identity of the accountancy profession. Accountants need to return to knowing that their profession primarily exists to serve the public by providing honest and reliable financial reporting. Accountants need to move away from the commercial, self-interest identity that is currently prevailing worldwide. A sound professional identity is more likely to deter unethical behaviour, as the sense of belonging inspires more frequent compliance with the professional requirements.

Due to evolving economic markets and globalization, accounting firms have been encouraged to have areas (or industries) of specialization and train accountants and auditors to be industry experts. This was found, by Grenier (2017), to have an adverse effect on the amount of professional skepticism exercised by auditors. Auditors who were specialists in that industry (the insurance industry was used) generally accepted responses provided by management whilst non-specialists asked follow-up questions. The impact of the efforts by firms to promote professional skepticism was found to be greater among specialists than non-specialists. This is because non-specialists were already exercising a high level of skepticism due to their unfamiliarity with the industry in question. Specialists were also found to be less likely to worry about the possibility that management may misrepresent facts. It is also suggested in the study that placing emphasis on self-criticism could be more effective than emphasizing to auditors that they should exercise skepticism.

## **2.2.5 Perceptions on ethics of accountants and auditors**

### **2.2.5.1 Introduction to perceptions**

Perceptions of parties involved in the accountancy and auditing profession are viewed by the researcher as a relevant litmus test that can provide further insights into the ethical challenges faced by members of the profession. There is limited existing literature on the perceptions of these stakeholders, with a majority of the existing literature based on perceptions of students and university staff. To the perceiver, perception involves picking and organising the stimuli from your environment in order to put meaning to what you have observed (Davidson & Schwartz, 2001). As such, different individuals will respond differently to one and the same experience or observation (Davidson & Schwartz, 2001).

Knapp (2018) asserts that a client in a good financial standing is seen as being more likely to receive the audit outcome which they desire to a contentious issue, compared to a client faced with a poor financial standing. This evidence perhaps indicates that we are more likely to see further financial reporting scandals from larger corporations in the near future. Large corporations, such as those listed in stock exchanges normally have the strongest financial standings due to their ability to access additional funds and capital. Further to this, these large clients usually bring with them large audit fees – which can at times compromise the objectivity of auditors. The SAICA Code offers an example of a situation where the audit fee of one client forms a substantial portion of the total fees to be received from all clients in a given year. This situation does pose a threat to compliance with ethical requirements. This threat comes about because losing such a large client can be detrimental to the sustainability of the firm. Acting in self-interest, the firm can be led to compromise on the ethical requirements in order to keep the client – and maintain the audit fee.

There is a view that clients will receive their desired audit outcome when auditors do not keep to the applicable technical standards when resolving a contentious matter (Knapp, 2018). This demonstrates the importance of professional accountants and auditors in utilising the applicable standards – particularly when faced with difficult and contentious matters.

### **2.2.5.2 Time pressures**

In another study of perceptions on the ethical conducts of accountants in Mauritius, the perceived gravity of time budget pressure (in terms of how tight the budget is) was found to be substantially less than in other developed countries (Soobaroyen & Chengabroyan, 2006). As previously demonstrated, there is evidence that the extent of ethical pressures does vary between regions. As a result, this evidence of differences in perceptions of time budget pressures comes as no surprise. The fascination with time budget pressure is informed by the importance of time in an audit firm. For the auditing profession, time is everything. Auditors and accountants sell time. They charge for their services based on resources that were necessary to deliver the service and the time spent is usually the most significant resource. Accordingly, auditors normally feel that the evaluation of their performance and career growth within the firm are largely related to their efficient use of budgets (Soobaroyen & Chengabroyan, 2006).

Premature sign-offs is another area related to the issue of time. The idea goes that as auditors are faced with the pressure to timeously complete projects so as to maximise profitability, there exists a risk of prematurely signing off on the project whereas the necessary sufficient and appropriate audit evidence has not been gathered. Soobaroyen & Chengabroyan (2006) found that significant cross-national differences are perceived for the levels of premature sign-offs. As expected, the budget-tightness was the primary reason behind premature sign-off (Soobaroyen & Chengabroyan, 2006). One fears that the practice of premature sign-offs has become institutionalised within the auditing profession. During these tough economic times, it seems to be more difficult for auditors to be profitable on a project-by-project level. Auditors are expected to be profitable and, at the same time, they are also expected to perform all necessary procedures in order to be in a position to express a professional opinion in compliance with the applicable rules (Soobaroyen & Chengabroyan, 2006).

### **2.2.5.3 Regulatory bodies**

In looking at the perceptions of professional accounting bodies, Jackling, Cooper, Leung, & Dellaportas (2007) found that there are a number of relevant challenges at

play. These include areas such as earnings management, whistle-blowing and conflict of interest. Regulators are, of course, in a unique position in that they are responsible for the oversight of the profession. Part of this oversight includes performing periodic monitoring reviews. These monitoring reviews present the regulators with an opportunity to, at first hand, obtain evidence as to the extent of compliance with ethical requirements by the professionals. Accounting and auditing professionals are required to keep evidence of ethical dilemmas and the resolution thereof. Therefore, the perception of regulators is a fresh and unique perspective. There is a strong view that members of the profession should be involved in the process of deciding the contents of ethics education (Jackling et al., 2007).

#### ***2.2.5.4 Independence, perceptions of the youth and perceptions of professionals***

The independence and objectivity requirements of auditors is what differentiates auditors from other professions. Members are required to maintain the required level of independence in line with the assurance engagement being performed. In a study of auditor independence, Pearson (1987) surveyed Certified Professional Accountants (“CPA”) in the USA, on the question of the reasons for audit failures. The study found that the number one reason identified by the CPAs was accepting management’s word in cases where the auditor should be verifying supporting documentation. This was followed by the acceptance of an engagement even though the auditor does not have sufficient resources (skills, knowledge and experience) to perform the engagement. Giving-in to the client’s demand even though the auditor knows that it is incorrect to do so in that circumstance, was the third most identified reason. Finally, agreeing to a limitation of scope, and omitting to critically evaluate material transactions were two of the least identified reasons. Mohd, Omar, & Stewart (2015) suggest that incentive-based remuneration threatens an internal auditor’s objectivity when it is based on how the company has performed, but that threat is not as significant when it is based on that internal auditor’s performance.

The perception of the accountant being a corrupt professional is not very prevalent amongst the younger generation, but there is space to improve how the public currently perceive accountants’ ethics (Caglio & Cameran, 2017). Perhaps there is

more optimism within this generation than in the older generations. Another possible explanation could be that the younger generation of the 21<sup>st</sup> century have much easier access to information than has ever been experienced in history. The ability to speedily conduct personal research on any issue – an attribute of technological advancements – makes this generation highly informed. However, the level of reliance that can be placed on the perceptions of the younger generation is questionable, as suggested by studies on the effect of age or career stage on ethical judgements (Elias, 2002; Espinosa-pike & Barrainkua, 2016; Radloff, 2007; Weeks et al., 1999).

Accountants have the most positive perception about their ethical conduct, whereas the most negative perception is from undergraduate students enrolled in studies other than management and business administration (Caglio & Cameran, 2017). This could be explained by the need for accountants to present a positive image of their profession. Perhaps during the gruelling seven-year process of qualifying as chartered accountant, it is engraved within accountants that they are always ethical people - irrespective of empirical evidence? Finally, more experienced professionals have less positive perceptions of accountants' ethics than their less experienced colleagues (Caglio & Cameran, 2017).

### **2.3 Other contemporary issues**

In South Africa, the Independent Regulatory Board for Auditors recently issued a notice in terms of the Auditing Profession Act 26 of 2005, wherein a rule was enacted which will make Mandatory Audit Firm Rotation effective from 1 April 2023. Under this rule, audit firms which audit Public Interest Companies will be prohibited from accepting re-appointment as auditor of the said company after having served for ten consecutive years. IRBA has motivated this decision by communicating to the public that the rule is informed by the need to enhance auditor independence and also to accelerate transformation in the profession IRBA (2017). This confirms that there is indeed concerns around the ethics currently being displayed by accounting and auditing professionals.

## **2.4 Chapter summary**

The accounting and auditing professions were born as a result of agency problems and continue to be underpinned by historic theories such as the agency theory, the stakeholder theory and the public interest theory. Numerous scholarly work has been conducted in the subject area of ethics of accountants and auditors, and thus any work in this area will add to the current discourse. Despite this, there is limited literature on the perceptions of accountants and auditors themselves on professional ethics and professional skepticism in the profession. Empirical evidence confirms the existence of pressures to compromise on ethics during the performance of professional activities by accountants and auditors. This chapter has provided a comprehensive literature review that presents an appropriate setting for this study on the perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa.

The chapter discusses the research design and approach in sourcing perceptions of accountants and auditors on professional ethics and professional skepticism. In addition to that, it also addresses the method that will be followed in conducting this study.

## **CHAPTER 3: METHODOLOGY**

### **3.0. Introduction**

Chapter 2 provided insight into existing literature on the ethics and professional skepticism of accountants and auditors. This literature demonstrates the importance of ethics in the profession, and that accountants and auditors face various pressures to compromise on their ethics. Further to this, there are a variety of factors that affect an individual's ability to maintain ethical conduct during the performance of their professional activities.

In this chapter, the research design and methodology are outlined, and this outline focuses on research approach, the population, data collection and research analysis.

### **3.1. Research paradigm**

This study follows a post-positivist research paradigm. This paradigm follows positivism or 'scientific method' or 'science research'. The reason for doing this type of research is said to be to discover laws that can be generalised and which regulate the functioning of the world (Kawulich, 2001). This paradigm holds that the sole manner to establish objective facts and truth is through a scientific method (Kawulich, 2001). This paradigm is thus appropriate for this study as the study seeks to obtain objective perceptions about the state of professional ethics and professional skepticism in the South African accounting and auditing professions.

The method to be used in this study is shaped by the nature of the topic and the objectives of the study. There are two research approaches available for selection. These are the qualitative approach and the quantitative approach to research. A quantitative approach has been adopted for this study, whereby a questionnaire will be completed by a sample of participants. In their study of perceptions of the younger generation on accountants' ethics, Caglio & Cameran (2017) also make use of this approach as the data for the study was collected through a survey issued to accountants born after 1980. Mohd et al. (2015) also followed a similar approach in the study of the impact of incentive-based remuneration on internal auditors' perceptions of objectivity. Finally, Jackling et al. (2007) similarly adopt the approach

of using survey data in their study of perceptions of regulatory bodies on matters around ethics. Consequently, there are reasonable grounds and support for adopting the quantitative approach through a questionnaire for the purposes of obtaining perceptions of accountants and auditors on professional ethics and professional skepticism.

Amongst the key advantages for adopting such an approach are the diverse biographical profiles from which data can be sourced. This assists in building valid grounds for generalisation of results and thereby helps to inform future policy decisions by the regulators. In contrast, a disadvantage to this approach is the lack of a personal touch in that respondents completed the questionnaire remotely and it is thus not possible to ascertain the authenticity of responses.

### **3.2. Population of the study**

The population for a research study should be all the members who qualify for the criterion set out for the study (Alvi, 2016). It is a group of individuals who share the same characteristics (Cresswell, 2013). The population for this study is chartered accountants who are registered with the SAICA. These individuals are spread out throughout the nine provinces of the country, and include both males and females of all the official races. A portion of these accountants are practicing/working as financial statement preparers or who take ultimate responsibility for preparation of financial statements. These are the individuals directly linked to the recent financial scandals as far as it relates to incorrect financial information produced. In large organisations, it often happens that a Financial Manager will prepare the financial statements but the Financial Director or Chief Financial Officer is responsible for final review and approval thereof.

It is also common in practice that the function of financial statement preparation is outsourced to a professional service firm specialising in accounting, tax and advisory. This is why the population will include accountants in these segments of the profession. The requirement of “chartered accountants” is important because it is these professional accountants who have to comply with the IFAC Code of Conduct.

Another portion of this group are Registered Auditors or auditors working under the instruction of Registered Auditors will form part of the population, as all registered auditors are firstly chartered accountants. The latter, includes those auditors who are working in audit firms as Assistant Managers, Managers, Senior Managers and Associate Directors. These individuals are usually not yet registered with the IRBA as Registered Auditors, but perform the functions of auditors on a day-to-day basis on behalf of Registered Auditors in the firm. It is also accepted by the IRBA that these professionals are performing duties on behalf of the Registered Auditors. There is therefore, no doubt about these individuals being recognized as professional auditors.

### **3.3. Sampling technique and sample size**

#### **3.3.1 Sampling technique**

As previously indicated, this study follows a quantitative research approach. In instances where the population of the study is large, which results in resources being inadequate to reach all the individual units in the population, sampling becomes the appropriate alternative (Barreiro & Albandoz, 2001). A sample is a subgroup of the population that the research study focuses on (Cresswell, 2013). Probability sampling applies some level of random selection in which all units of the population have a chance of being selected. In this method, a sample representative of the population is selected (Cresswell, 2013). It is a rigorous form of sampling and is representative of the population (Cresswell, 2013). Non-probability sampling is used where the researcher exercises judgement and a non-random approach to sampling (Alvi, 2016). Units in the population do not necessarily get an equal chance of being selected as the sample selection is made with the researcher's subjective judgement (Alvi, 2016). From the population previously discussed above, a sample of accountants and auditors was selected. The sample is spread across the entire country of South Africa. The sample was selected haphazardly, from the SAICA database of registered members. This was done after obtaining gatekeeper's approval from SAICA. Spreading the variety of participants is more likely to source a greater balance of views and prevalent sentiments within the profession. This approach of sourcing data for a research study on ethical issues in the accounting and auditing profession was also applied in previous studies by scholars such as Soobaroyen & Chengabroyan (2006), Espinosa-pike & Barrainkua, (2016), and Caglio & Cameran (2017).

### 3.3.2 Sample size

Selecting an appropriate sample size is an important aspect of sampling. The sample size for this study took into account fundamental principles, such as the importance of selecting the largest possible sample so as to limit the sampling error (Cresswell, 2013). One of the means for determining the sample size is sample size formulas (Cresswell, 2013). This eliminates the guesswork from the computation of the sample size and as a result also removes bias in the process – as it takes numerous, relevant, factors into account (Cresswell, 2013). Researchers also have the option of the use of tables for the purposes of arriving at an appropriate sample size for a study. The power analysis formula (for experiments) and the sampling error formula (for surveys) are the two common formulas used in research for determination of the sample size (Cresswell, 2013).

The SurveyMonkey platform was used to determine the appropriate sample size for this study. In arriving at the sample size, the following formula from SurveyMonkey (SurveyMonkey, 2018) was used:

$$\text{Sample size} = \frac{\frac{z^2 \times p(1-p)}{e^2}}{1 + \left(\frac{z^2 \times p(1-p)}{e^2 N}\right)}$$

Sample size =

N = population size • e = Margin of error (percentage in decimal form) • z = z-score

Based on a total population size of an estimated 44 000 registered chartered accountants (SAICA, 2018), as at 2018, with a desired 95 percent confidence level and a 5 percent margin of error, a sample size of 382 was derived.

## 3.4. Data

### 3.4.1 Research instrument

The data for this study was collected using an online questionnaire. There is an increasing use of the internet and websites as a form of electronic data collection in this age of advanced information technology (Cresswell, 2013). The increased access

to the internet through mobiles, has further increased the use of online surveys (Revilla, Toninelli, Ochoa, & Loewe, 2014). This method of data collection involves scanning the questionnaire information into the internet in order to allow for completion of the questionnaire by the respondents (Cresswell, 2013). The advantage of this data collection method is user-friendliness and the fact that it is easy to use – taking into account that most adults in modern times have access to the internet via their smartphones. One of the disadvantages of this method is the limitation of not having access to the population list and their email addresses (Cresswell., 2013).

The questionnaire contains thirty-four (34) questions – 12 of which relate to biographical details and 22 relating to ethics and professional skepticism. The questionnaire is divided into two main sections: Section A, which contains biographical details (such as name, age, gender, highest qualification, province of work, position, and province) and Section B, which contains the questions on ethics and professional skepticism. In Section B, the questions are grouped into the three themes associated with the research questions. These three themes are (1) Knowledge of ethics and how accountants and auditors comply with the code – questions 13 to 18 (2) Pressures to compromise on ethics – questions 19 to 26, and (3) Perceptions of compatriots – questions 27 to 34. The focus of the questions is on the ethical requirements per the Code of Conduct and on perceptions on the adherence by accountants and auditors to the required conduct. The perspective of professional accountants and auditors was sourced from the nature and type of questions asked.

The questionnaire was made available to respondents through the online survey platform named, KwikSurveys. Thereafter, participants were given one week to complete the questionnaire and return it to the researcher. Participants will be advised to return the completed questionnaire through email as well. As the study method will be in the form of a questionnaire, and the topic on ethics can be potentially very wide, the questions will be limited to closed questions. This also links or works well with the use of the rating scale as discussed in the paragraph below.

The questionnaire has five (5) predetermined responses from which participants chose in responding to the questions. These responses are in the form of a Likert Scale which will included the following responses: “Strongly Disagree”, “Disagree”,

Neutral”, “Agree” and “Strongly Agree”. There is comfort in that similar studies on perceptions have followed such an approach (Caglio & Cameran, 2017). This approach was envisaged to be most likely to yield more honest responses on the issue of ethical conduct by accountants and auditors, compared to an interview approach with open-ended questions. All professional accountants and auditors are very knowledgeable on the theoretical requirements of professional behaviour, and it would not serve this research any benefit to obtain theoretical responses. What will be of more value are honest responses from participants about the extent to which the requirements of the Code of Conduct are being adhered to on a daily basis in the profession.

Ethical clearance to conduct the study using surveys sent to members of SAICA was obtained by the researcher on 8 November 2018 from the University of KwaZulu Natal’s School of Accounting, Economics and Finance.

#### **3.4.2 Data collection procedure**

The online survey was communicated to participants by SAICA on 28 November 2018, through their weekly newsletter. An electronic link to the survey was provided in that newsletter and participants simply clicked on the link to access the survey on KwikSurveys. The KwikSurveys platforms automatically coded the data in Excel and subsequently determined the mean, medium and mode for each of the survey questions. This Excel spreadsheet also contained the responses in Section A of the questionnaire. It was also accompanied by a PDF version which is in a report style. This report depicts the responses for each of the questions in a pie-chart. It also presents already computed percentages for each of the questions, and a standard deviation for each of the questions which form part of the questionnaire. This is very useful information, particularly with respect to data analysis, and is an added advantage to utilising web-based data collection methods.

### **3.5. Data analysis**

Analysing quantitative data involves several steps (Cresswell., 2013). The first of these steps is to actually prepare the data for analysis, followed by doing the analysis (Cresswell., 2013). Descriptive analysis is a common method used to analyse data. A more sophisticated form of data analysis is to perform inferential analysis to test hypotheses (Cresswell., 2013).

For this study, in preparing the data for analysis, the responses were coded through assigning scores as follows: 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, and 1 = strongly disagree.

The final step in data analysis is to interpret the results (Cresswell., 2013). In this stage, the researcher gets to retell the story by bringing it into context (Anyan, 2013). Data analysis in quantitative study is usually characterised by a strong level of rigour (Venkatesh & Brown, 2013).

#### **3.5.1 Data coding and capturing**

Analysing quantitative data involves preparing the data that will be analysed and then actually analysing it (Cresswell., 2013). Preparation of the data entails the assignment of numeric scores to it, evaluating the forms of scores to use, selection of a statistical program, importing the data into the program, and then preparing the database for analysis (Cresswell., 2013). As typically found in quantitative studies, the results of the questionnaire have been primarily analysed using descriptive analysis – reporting measurements of central tendency and variation (Cresswell., 2013). The data from KwikSurveys (which already contains computed means and standard deviations for each of the questions) was imported in to the Statistical Procedure for the Social Science 25 (SPSS) application. This data was then scored and further analysed through descriptive statistics.

#### **3.5.2 Statistical analysis**

The data was then organized into logical summaries, based on similarity, for each of the questions within Section B of the questionnaire. That is to say, all “strongly agree” responses are grouped together, et cetera. The following primary independent

variables (which are contained in Section A of the questionnaire) are then used for further analysis:

- Age (0-22, 23-29, 30-39, 40-49, ≥50);
- Gender (Male, Female);
- Province;
- Accountant/Registered Auditor; and
- Career stage (0-5, 6-10, 11-15, >15).

For the variable named “Province”, since South Africa has nine (9) provinces, the researcher has elected to group the results further into the four (4) regions categorised by SAICA. SAICA’s four regions are as follows:

- Central (Free State, Northern Cape, North-West)
- Eastern (KwaZulu Natal)
- Southern (Western Cape, Eastern Cape)
- Northern (Gauteng, Limpopo, Mpumalanga).

The computed median, mean and mode are also depicted in a table, allowing for more vivid analysis. The majority of the analysis will then be based on the outcomes as depicted in the graph and the table. This will include making use of existing literature to compare the results of this study with what was found in previous studies on ethics in the profession.

An attempt has been made to generalize the results across all accountants and auditors in South Africa. Due to the sampling technique used, the researcher is of the view that there is sufficient diversity in the set of participants. Consequently, the group is likely to provide some representation of the population of professional accountants and auditors in the country. The researcher makes use of chi square to test for statistical significance (Cresswell., 2013). For the purposes of that test, the categories of the dependent variable are the coded Linkert-scale results. For the purposes of performing the inferential statistics, the Analysis of Variance test and t-test are employed for comparison of results for the independent variables “Gender”, “Province”, and “Accountant/Registered Auditor”. For “Age” and “Career stage”, a multiple regression test is performed.

### **3.6. Data Reliability and Validity**

Reliability addresses the consistency and stability of the scores from the research instrument (Cresswell., 2013). Theoretically, the scores should be consistent when the research instrument has been administered more than once (Cresswell., 2013). A correlation coefficient has been computed to make a statistical determination of the reliability of the results of the questionnaire. The Cronbach alpha is used to test for consistency (Cresswell., 2013). An alpha coefficient less than 0.6 is considered to be poor, while a coefficient greater than or equal to 0.9 is excellent. If the coefficient is 0.6 to less than 0.7, it is considered moderate (Saunders, Lewis, & Thornhill, 2009). The alpha calculated for the study is 0.62 - which is considered to be moderate.

### **3.7. Chapter summary**

This chapter has dealt with the methodology that the researcher has utilised in conducting the study. It explained that a quantitative research design is appropriate for obtaining perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa. An online questionnaire was utilised to complement this design method. Respondents were haphazardly selected and the link to the KwikSurveys website communicated in SAICA's weekly newsletter. Data was automatically captured in Excel form in this website, and this Excel information was subsequently coded. The SPSS application was utilised to perform descriptive analysis and inferential statistics. The Cronbach alpha was used to confirm the trustworthiness of the study and further support a case for the reliability of the study.

Chapter 4 will discuss the empirical findings of the study. The findings are based on the analysis of the data obtained from the online questionnaire completed by respondents.

## **CHAPTER 4: PRESENTATION OF RESEARCH RESULTS**

### **4.0. Introduction**

The previous chapter explained the quantitative research design approach that was applied to obtain the perceptions of accountants and auditors on professional ethics and professional skepticism in the profession. Chapter 3 also described the population of the study, the sampling method, the data collection method and how the data would be analysed. The chapter concluded with an explanation on data reliability and the validity of the data. This chapter is a presentation of the research findings and the analysis thereof. The chapter begins with foundational literature on data analysis, with a focus on quantitative methods. Thereafter, the empirical findings are presented and discussed within the structure of the research questions and the objectives of the study. These components include compliance with ethical requirements, pressures faced to relax ethics during the performance of duties, and perceptions of compatriots on compliance with the ethical requirements.

### **4.1. Empirical results and discussion**

#### **4.1.1. Demographical information**

A sample of 382 respondents was selected from the existing population of chartered accountants in South Africa – who are registered with SAICA. From this sample, a total of 92 respondents initially participated in the survey, of which 82 of these completed the survey. This is effectively a response rate of 21 percent - which is regarded as good for an online survey where there is no previous relationship with the respondents (SurveyMonkey, 2018). Similarly, studies have found that response rates for online survey tend to average 21.5 percent (Sax, Gilmartin, & Bryant, 2003). The length of the online survey is also a factor that influences response rate. Results of a study by Deutskens (2004) showed that the response for a shorter version of the survey was 25 percent whereas it dropped to 17 percent for a longer version.

The survey contained Section A which sourced the demographics information of the respondents. This information is used in the detailed analysis as the primary vehicle to answer the research questions of the study. Tables 4.1 to 4.6 depict the said information.

	<b>Age</b>	<b>Gender</b>	<b>Province</b>	<b>Professional qualification</b>	<b>Years of experience</b>
<b>Valid</b>	82	80	82	82	82
<b>Missing</b>	0	2	0	0	0
<b>Total</b>	82	82	82	82	82

The majority of the respondents were in the category of between 30 and 39 years of age, and they accounted for 51 percent of the respondents who completed the survey. These are probably mature chartered accountants who are in the middle of their careers. The requirements to qualify as a chartered accountant in South Africa are the successful completion of an undergraduate degree in accountancy, a post-graduate Certificate in the Theory of Accounting (CTA), 2 qualifying examinations set by SAICA and 3 years of articles served with a registered firm. This rigorous process is what leads to most CAs holding managerial roles immediately after qualifying. Therefore, it is likely that this mature group of CAs in their 30s, hold senior management or director positions. Their inputs or views in this, are thus highly valuable.

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**Table 4.2 – Number of respondents per the different age groups**

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<b>Age</b>	<b>Frequency</b>	<b>Percentage</b>
22-29 years	24	29.3
30-39 years	42	51.2
40-49 years	7	8.5
50 years and older	9	11

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In terms of gender, the majority (at 66 percent) of the respondents were males. Perhaps this statistic highlights the need for continued efforts to transform the accounting and auditing profession – a matter not explored by this study.

**Table 4.3 – Number of respondents per the different gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	53	66.3
Female	27	33.7

The provinces of Gauteng (GP), KwaZulu Natal (KZN) and Western Cape (WC) had the highest percentages of responses within the sample. Whereas Limpopo (LP), Free State Province (FS), and Northern Cape (NC) had lower responses. There was no respondent from the North West Province (NW) and Mpumalanga (MP). Table 4.4 below, details the total responses for each of the provinces.

**Table 4.4 – Number of respondents per the different provinces**

<b>Region</b>	<b>Frequency</b>	<b>Percentage</b>
Eastern Cape	1	1.2
Northern Cape	1	1.2
Western Cape	11	13.4
Free State	6	7.3
Gauteng	46	56.1
Kwa-Zulu Natal	15	18.3
Limpopo	2	2.4

16 percent of the respondents had the Registered Auditor (RA) qualification, in addition to their CA qualification. Only RAs can sign-off on audit reports in South Africa – the CA qualification alone does not qualify an individual to sign audit reports.

**Table 4.5 – Number of respondents per professional qualification**

<b>Qualification</b>	<b>Frequency</b>	<b>Percentage</b>
Chartered Accountant	69	84.1
Registered Auditor	13	15.9

Finally, in relation to the number of years of experience as a qualified chartered accountant, the categories of 0-5 years (37 percent) and 6-10 years (38 percent) were the majority. This seems reasonable when compared with the “Age” demographical information – where 80 percent of the respondents were between the ages of 22 and 39 years.

**Table 4.6 – Number of respondents per the different years of experience as a CA**

<b>year</b>	<b>Frequency</b>	<b>Percentage</b>
0-5 years	30	36.6
6-10 years	31	37.8
11-15 years	8	9.8
More than 15	13	15.9

#### **4.1.2. Knowledge of the Code of Conduct**

This section of the questionnaire depicts the responses to statements about the accountants’ and auditors’ compliance with the ethical requirements in the Code of Conduct (CPC). The first two research questions of this study seek information about accountants and auditors grasp of the ethics requirements contained in the CPC and whether they do indeed comply with these. Therefore, effectively, respondents are first asked if they themselves comply with the CPC, before they are presented with an opportunity to provide their perceptions about compatriots. Statements 13 to 18 of the questionnaire are relevant in this regard.

Overall, it is clear that the majority of the respondents are of the view that they consistently comply with the ethical requirements of the CPC.

**Table 4.7 – Responses on knowledge of, and compliance with the Code**

<b>Statements on knowledge of the code and compliance with requirements of the Code.</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
13. You have full knowledge and understanding of the SAICA Code of Professional Conduct.	81	4.15	1.026
14. Annually, you attend training sessions on Ethics.	81	3.21	1.311
15. You have frequently demonstrated that you are well able to identify any potential threats to compliance with the Code of Professional Conduct.	82	4.22	.930
16. You have demonstrated frequently that you are well able to implement appropriate safeguards to potential threats identified.	82	4.17	.814
17. You are always alert to ethical dilemmas during the performance of your work.	81	4.40	.701
18. You exercise the appropriate level of professional skepticism in environments prone to unethical conduct.	82	4.28	.959

For statement 13, 53 percent of the 81 responses agreed with the statement and this translated into a mean of 4.15. 38.3 percent strongly agreed with the statement. The responses for statement 14 were evenly spread. The most popular response for this statement was “Neutral” at 26 percent and this was further confirmed by a mean of 3.21 – which is closer to 3 rather than 4. The majority (46 percent) of the respondents agreed with statement 15 (43 percent strongly agreed). Similarly, 55 percent of the respondents agreed with statement 16. The majority (49 percent) of the respondents agreed with statement 17. Closely related to that, 49 percent of the respondents strongly agreed with statement 18.

Table 4.7 presents the overall results of this portion of the questionnaire, and the overall results show that respondents agreed with the statements on their knowledge

and compliance with the requirements of the code. All the statements had a mean above 4, except for one statement. The statement on respondents being consistent in their annual attendance of training (as required by SAICA and IRBA), received a mean closer to 3 – which suggests that, on average, respondents were not able to agree to this statement. Training is a very important part of professional development and there seems to be a lack of adherence to this requirement when one looks at the results in Table 4.7. Overall, the results in this section show that accountants and auditors have awareness of the CPC and they appreciate its relevance. The need to have a code of conduct is also confirmed by these results. This evidence is consistent with prior studies on the relevance of a code of conduct and affiliate members' knowledge of such a code (Higgs-kleyn & Kapelianis, 1999). In terms of the SAICA Code of Professional Conduct, studies have also found that members agree as to its importance and relevance (Radloff, 2007).

**Table 4.8. Pearson's correlation – relationship between variables relating to knowledge of the Code of Professional Conduct and compliance with the Code**

Statements relating to knowledge of the Code and compliance with Code.	13	14	15	16	17	18
13	1					
14	.327**	1				
15	.616**	.329**	1			
16	.406**	.199	.668**	1		
17	.320**	.166	.436**	.576**	1	
18	.336**	.130	.567**	.586**	.553**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Pearson's correlations were computed for the variables on the knowledge of the content of the CPC and compliance with the requirements thereof. The computation shows that the variables are statistically significant and thus confirming a positive relationship between the variables. This confirms that respondents consider themselves to not only have good knowledge of the CPC, but also, to be in compliance with the requirements thereof. All the relationships are medium (between 0.3 and 0.7)

other than three weak relationships (those below 0.3). These are all found under the statement: “Annually, you attend training sessions on Ethics.”

The Cronbach alpha calculated for these variables is 0.79 - which is considered to be good (Saunders et al., 2009).

#### **4.1.3. Pressures to lax professional ethics and professional skepticism**

This section of the questionnaire (statements 19 to 26) presents the responses to statements about the pressures faced by accountants and auditors to lax their professional ethics and professional skepticism during the performance of their services. The third and fourth research questions of this study seek data regarding the pressures in the market which accountants and auditors have to contend with during the performance of their services – particularly pressures to compromise on the required ethics and professional skepticism. These statements source the perceptions of accountants and auditors regarding the prevalence of these pressures in their work environments. Data on the impact of ethics on quality of the service provided is also sourced from the last few statements in this section of the questionnaire.

All the responses for this section of the research instrument had a mean larger than 3.5 and this suggests that accounting and auditing professionals generally agree that pressures to lax ethics do exist. This also confirms a relationship between some of these pressures and the quality of services provided by accountants and auditors. Notwithstanding this, half of the responses had a standard deviation of more than 1. This is most probably due to the fact that the majority of these responses had a mode either above 4 or very close to 3. Two outcomes were most common in the responses to the statements. In the first instance, respondents either agreed or strongly agreed to a statement. Secondly, the next most prominent response was to remain neutral to the statement posed by the research instrument.

**Table 4.9 – Responses on pressures to lax ethics and skepticism**

<b>Statements on pressures to lax professional ethics and professional skepticism</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
19. The rapidly evolving global economic system and the generally weak global economic conditions are forcing accountants to lax the ethical standards of their profession.	82	3.71	1.048
20. Accountants are under pressure to meet financial business goals, such that these goals take precedence over their ethical standards.	79	3.87	.979
21. The pressure to meet financial business goals usually results in accountants exercising lower professional skepticism.	81	3.75	.916
22. Conducting professional services with the requisite ethical behaviour normally results in high quality work.	82	4.17	.886
23. A decline in audit fees normally results in the audit team having to decrease the hours spent on the job.	80	4.04	.961
24. A decrease in the audit hours spent on the job sometimes results in a compromise on the expected ethical standards.	81	3.70	1.030
25. A decrease in the audit hours spent on the job sometimes results in a compromise on the expected professional skepticism.	80	3.60	1.186
26. The resistance by audit clients to pay for overruns has a negative impact on the quality of audit work performed in future years.	82	3.68	1.110

There was a positive response from respondents (44 percent of responses agreed) regarding statement 19 that the rapidly evolving global economic system and generally weak global economic conditions are forcing accountants to lax the ethical standards of their profession. 52 percent of the respondents agreed with the statement 20 regarding the existence of pressures arising from business targets. This finding supports the results of the study by Espinosa-pike & Barrainkua (2016) which found that there has been a major shift in the culture of audit firms with a stronger focus now being on business goals. Similarly, 52 percent of the respondents agreed with the statement 21 which speaks of the negative impact these pressures have on professional skepticism.

Another statement relating to professional skepticism was statement 25, which asserted that lower audit hours utilised on the job sometimes lead to a compromise on the expected professional skepticism. The majority (43 percent) of the respondents agreed with this statement and another 23 percent strongly agreed with the statement. These results are consistent with the findings of the study by Grenier (2017) which found that the evolving economic markets and globalization do have an adverse effect on professional skepticism.

Just over half (51 percent) of the respondents agreed with the statement (22): “Conducting professional services with the requisite ethical behaviour normally results in high quality work”, while 38 percent of the respondents strongly agreed with the statement. We can consequently deduce that accountants are in agreement that there is a strong link between ethical behaviour and quality work. This is a theme that has been echoed by the IRBA inspection results for the past two to three years – where one of the root causes for poor audit quality was found to be inadequate objectivity (IRBA Public Inspections, 2017).

A large (45 percent) group of the respondents agreed with the statement (23) that a decline in audit fees normally results in the audit team having to decrease the hours spent on the job. Another 35 percent strongly agreed with this statement. The majority (44 percent) of the respondents agreed with the statement 24, thus confirming that a decrease in the audit hours spent on the job sometimes results in a compromise on the expected ethical standards. This is consistent with results of other studies with a finding that accountants and auditors do face pressures to lax ethics (Tsunogaya et al., 2017). A further 21 percent of the respondents strongly agreed with the statement.

Just under half (44 percent) of the respondents agreed with the statement 26, while 23 percent of the respondents strongly agreed with this statement. These responses to statements 23 to 26 were consistent with prior studies that have found that pressures to lax ethical judgement (Lai et al., 2018) and pressures to decrease audit budgets (Espinosa-pike & Barrainkua, 2016) do have a negative impact on the quality of the service performed by accountants and auditors. This could help to explain the

recent accounting and auditing failures in South Africa as the failures do speak volumes about the quality of the services provided by these esteemed professionals.

The accounting and auditing professionals generally responded positively to the statements on the existence of pressures to compromise on ethics and professional skepticism. There was also a positive response for statements 23 to 26 which specifically dealt with pressures to decrease engagement resources (budget time and fees) and the impact thereof, on the quality of the service provided.

Overall, the results of this portion of the survey demonstrate that accountants and auditors do face pressures to compromise their professional ethics and professional skepticism. These pressures come from clients and make the environment unfavourable for high levels of ethical conduct. Clients are themselves representatives, or at least a segment, of the public (society) and it is thus concerning that the very same public which accountants and auditors seek to protect, are making it difficult for them to do so. This is a serious weakness that will continue to be faced by the accounting and auditing profession as it endeavours to restore public trust and rebuild the damaged reputation.

It will be interesting to observe if these same individuals have the perception that their fellow compatriots are likewise consistently.

**Table 4.10 Pearson’s correlation – relationship between variables relating to pressures to lax professional ethics and professional skepticism**

Statements relating to pressures to lax ethics and skepticism	19	20	21	22	23	24	25	26
19	1							
20	.357**	1						
21	.364**	.578**	1					
22	.068	.112	.065	1				
23	-.101	.057	-.080	-.125	1			

24	.310**	.427**	.225*	-.044	.521**	1		
25	.215	.443**	.155	.031	.347**	.765**	1	
26	.185	.279*	.127	-.020	.391**	.450**	.547**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Pearson’s correlations were subsequently computed for the variables relating to the pressures faced by accountants and auditors to lax their professional ethics and professional skepticism. The computation shows that there are some variables with statistical significant and some that did not convey similar significance. This confirms that respondents are somewhat divided in their perception of pressures existing in the professional environments wherein they operate. This is further corroborated by the results of the standard deviations for the statements in this section of the questionnaire. Of the eight statements, four had standard deviations above 1, and the other four were below 1 – which represents an even split between the two.

The Cronbach alpha calculated for the variables in this section of the study is 0.71 - which is considered to be good (Saunders et al., 2009).

#### **4.1.4. Perceptions on compatriots’ compliance with the Code**

This section of the questionnaire presents the responses to statements about accountants and auditors’ perceptions of their compatriots’ compliance with the required professional ethics and professional skepticism. This addresses the final research question of this study which is about the perceptions of accountants and auditors on their compatriots’ compliance with the required professional ethics and professional skepticism. The core of this study is the perceptions of accountants and auditors. Thus, there will be further analysis of these perceptions in section 4.3 of this chapter. Statements 27 to 34 of the questionnaire deal with the said perceptions.

The majority (36 percent) of the respondents were neutral to the statement (27) on accountants who are preparers of financial statements complying with the SAICA

Code of Professional Conduct in performing their professional duties of compiling financial statements. This was closely followed by 33 percent of respondents who agreed with the statement. This implies that respondents have noteworthy doubts about fellow accountants' compliance with ethical conduct when preparing financial statements. This is an important observation for this study because, to an extent, it provides some evidence about the existence of fraudulent financial reporting. That is to say, there are accountants who knowingly prepare misleading financial statements – for whatever reason.

More than half (53 percent) of the respondents agreed with the statement 28 that reads: "Registered Auditors and their professional staff have a sound understanding of the SAICA Code of Professional Conduct", and there was a mean of 3.68 for this statement. Respondents largely (61 percent) agreed with the statement (29): Accountants frequently demonstrate that they are well able to identify any potential threats to compliance with the Code of Professional Conduct. 20 percent Disagreed and 13 percent strongly disagreed. The majority (52 percent) of the respondents agreed with the statement (30) that accountants demonstrate frequently that they are well able to implement appropriate safeguards to potential threats identified.

Just under half (44 percent) of the respondents agreed with the statement 31, while only 17 percent disagreed with it. The majority (39 percent) of the respondents agreed with the statement (32): "Accountants exercise the appropriate level of professional skepticism in environments prone to unethical conduct." 20 percent of the respondents disagreed with this statement. This result is contrary to the findings of the study by Pearson (1987), which found that accountants agreed that the required levels of professional skepticism are not always maintained – due to various reasons. Similarly, the majority (44 percent) of the respondents agreed with the statement (34): "Most accountants and auditors are honest in their completion of the annual Continuing Professional Development hours." 11 percent of the respondents disagreed with the statement.

Lastly, in terms of the statement on accounting and auditing firms continuing to provide the prohibited service of both compiling and auditing financial statements of the same individual client, the majority (47 percent) of the respondents agreed with the statement. This implies that members do not believe that fellow accountants and auditors comply with the requirement of the CPC to not prepare and audit the same set of financial statements. To prepare the financial statements and then audit them amounts to lack of objectivity – it is a violation of one of the pillars of the profession of independence.

**Table 4.11 – Responses on perceptions on compatriots’ compliance**

<b>Perceptions on compatriots’ adherence to professional ethics and professional skepticism</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
27. Accountants who are preparers of financial statements comply with the SAICA Code of Professional Conduct in performing their professional duties of compiling financial statements	81	3.32	.998
28. Registered Auditors and their professional staff have a sound understanding of the SAICA Code of Professional Conduct.	79	3.68	.856
29. Accountants frequently demonstrate that they are well able to identify any potential threats to compliance with the Code of Professional Conduct.	79	3.61	.791
30. Accountants demonstrate frequently that they are well able to implement appropriate safeguards to potential threats identified.	81	3.49	.937
31. Accountants are always alert to ethical dilemmas during the performance of their work.	81	3.44	.935
32. Accountants exercise the appropriate level of professional skepticism in environments prone to unethical conduct.	79	3.32	1.032
33. Certain firms continue to provide the services of both preparing the financial statements and auditing them, for the same client.	81	3.72	.925
34. Most accountants and auditors are honest in their completion of the annual Continuing Professional Development hours.	81	3.48	1.062

The statements in this section of the questionnaire had a mean which fell within the range 3.32 to 3.72. Statements 27 and 32 had means which are closest to 3, which suggests that respondents tended to be neutral on these statements. This implies that there are less desirable perceptions amongst members of the profession about the ethical compliance of preparers of financial statements, and about the levels of professional skepticism applied by accountants and auditors. The standard deviations were within the acceptable ranges for all but two of the statements – being statement 32 and 34.

Overall, the perceptions are clearly that accountants and auditors are compliant and do maintain the expected level of professional ethics and professional skepticism. This is despite the existing pressures faced in practice to compromise on these ethics. These results are contrary to what some studies on how stakeholders perceive accountants and auditors to be complying with ethical requirements (Jackling et al., 2007) (Soobaroyen & Chengabroyan, 2006). However, Caglio & Cameran (2017) do assert that accountants have the most positive perception about themselves as compared to how other stakeholders view them.

Based on the response to the statement regarding accountants and auditors continuing to provide both the services of preparing financial statements and auditing them for the same client (which is not permitted in terms of the ethics code), it would seem most accountants and auditors are in denial of the ethics decline.

**Table 4.12 Pearson’s correlation – relationship between variables relating to pressures to lax professional ethics and professional skepticism**

Statements on perceptions on compatriots’ compliance	27	28	29	30	31	32	33	34
27	1							
28	.370**	1						
29	.429**	.385**	1					
30	.396**	.419**	.490**	1				

31	.410**	.273*	.384**	.343**	1			
32	.499**	.087	.360**	.320**	.569**	1		
33	-.236*	-.094	-.080	.108	-.055	-.149	1	
34	.253*	.241*	.172	.277*	.266*	.218	.021	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Finally, Pearson’s correlations were computed for the variables relating to perceptions on compatriots’ compliance with the requisite professional ethics and professional skepticism – as depicted in Table 4.12 above. The majority of the variables show statistical significance and thus confirm a positive relationship between the variables. This demonstrates that there was convergence on perceptions of fellow accountants and auditors complying with the expected behaviours. This is further corroborated by the results of the standard deviations for the statements in this section of the questionnaire. Of the eight statements, six had standard deviations below 1, while only two were above 1. These two statements were the statement on accountants exercising the appropriate level of professional skepticism in environments prone to unethical conduct, and accountants and auditors being honest in their completion of the annual Continuing Professional Development hours.

The Cronbach alpha calculated for the variables in statements 27 to 34 of the research instrument is 0.71 - which is considered to be good (Saunders et al., 2009).

#### 4.2. Age, Gender and number of years of experience

Previous studies on the ethics of accountants and auditors have focused on characteristics such as gender, age and number of years of experience (Espinosa-pike & Barrainkua, 2016; Hottegindre et al., 2017; Weeks et al., 1999). Results of these previous studies have generally shown differences in responses amongst the various characteristics (or profiles). This section, therefore, aims to evaluate if there are noteworthy differences in the perceptions on compatriots’ compliance with professional ethics and professional skepticism. An analysis is also performed on responses relating to the question of the pressures confronting accountants and

auditors to lax professional ethics and professional skepticism during the performance of services.

#### **4.2.1. Age**

The youngest and oldest generation tended to strongly agree that accountants and auditors face pressures to lax their professional ethics and professional skepticism during the performance of professional duties. Of the eight statements in this section of the questionnaire, respondents in the age group 22-29 years had a mode of 5 for half the questions and a mode of 4 in the other half. There was a similar outcome for respondents in the age grouping of 50 years and above, in that three of the statements had a mode of 5 and four of the statements had a mode of 4. For this age category, there was one statement which had a mode of 3, which means that the majority of the respondents in this category chose to be neutral in that case. This statement was the one on a rapidly evolving global economic system and generally weak global economic conditions forcing accountants to lax the ethical standards of their profession. This could mean that this older generation may not be facing these pressures to the same extent as the other younger generations.

Furthermore, the three statements with a mode of 5 for this oldest generation in the sample of respondents were (1) A decline in audit fees normally results in the audit team having to decrease the hours spent on the job, (2) A decrease in the audit hours spent on the job sometimes results in a compromise on the expected professional skepticism, and (3) The resistance by audit clients to pay for overruns has a negative impact on the quality of audit work performed in future year. The results indicate that this age group of respondents did not feel as strongly about the pressures that exist to lax professional ethics and profession skepticism. These results also suggest that these older, and probably more valued, professionals do not experience the same level of pressure in the work environment as compared to their younger counterparts. However, a mode of 4 for the statements on pressures to lax ethics and skepticism still means that the majority agree that these pressures do exist.

Respondents in their 20's mostly strongly agreed with the statements: (1) A decline in audit fees normally results in the audit team having to decrease the hours spent on the job (2) A decrease in the audit hours spent on the job sometimes results in a compromise on the expected ethical standards (3) A decrease in the audit hours spent on the job sometimes results in a compromise on the expected professional skepticism, and (4) The resistance by audit clients to pay for overruns has a negative impact on the quality of audit work performed in future years. These respondents would have certainly been the least experienced of the total respondents and most probably would currently still be trying to make their mark and climb the corporate ladder. Consequently, they are the group who are highly likely to be faced with vicious pressures to lax their professional ethics and professional skepticism on a day-to-day basis. It is also probable that they hold lower managerial roles, and are thus directly responsible for operational matters such as audit fee budgets, recovery of overruns and the ethical dilemmas faced by the teams working with clients. The results do show that the youngest generation of chartered accountants feel most strongly about the pressures faced than their counterparts who are more experienced.

Notwithstanding these results, the Chi square tests for each of these statements revealed that there is no statistically significant association between age and any of the statements – except for statement 26. The said statement asserts that the resistance by audit clients to pay overruns has a negative impact on the quality of audit work performed in future years. The p values of the Chi square tests for the statements in this section were 0.431 (statement 19), 0.681 (20), 0.642 (21), 0.152 (22), 0.611 (23), 0.254 (24), 0.911 (25) and 0.011 (26).

These results present a picture that respondents share positive sentiments regarding their perceptions of compatriots' compliance with the requirements of professional ethics and professional skepticism. Interestingly, most of the respondents in the age groups of 22-29 and 30-39 years were neutral on the statement on accountants complying with the SAICA Code of Professional Conduct in performing all their professional duties. This outcome suggests that there is a considerable amount of doubt amongst accounting and auditing professionals about whether or not members

do sufficiently comply with the expected levels of professional ethics when performing their duties.

Another noteworthy observation was the response of respondents in the age group 50 years and above, to the statement that accountants are always alert to ethical dilemmas during the performance of their work. The most common response was to strongly agree (5) with this statement. This result supports the views this age group had on the pressures faced to lax professional ethics and professional skepticism. It represents a positive response towards being aware of ethical issues and being able to deal with them appropriately in terms of the Code.

The results for statement 33 confirm that respondents in the various age groupings agree that fellow accountants and auditors continue to provide both the services of preparing the financial statements and auditing them – which is in contravention of the statutory and ethical requirements in South Africa. The mode to this statement for the oldest respondents was 3, being “neutral”. This further corroborates the results discussed previously above – which suggested that this oldest generation did not feel that accountants and auditors lax their professional ethics and professional skepticism in the performance of their duties.

Notwithstanding these results, the Chi square tests for each of these statements revealed that there is no statistically significant association between age and perceptions on compatriots’ compliance with professional ethics and professional skepticism. Only statement 28 evidenced statistical significance. Statement 28 asserts that RAs and their professional staff have a sound understanding of the SAICA CPC. The p values of the Chi square tests for the statements in this section were 0.861 (statement 27), 0.045 (28), 0.876 (29), 0.674 (30), 0.312 (31), 0.612 (32), 0.714 (33) and 0.869 (34).

Overall, the varying results amongst the different age groupings confirm findings in previous studies that age is a factor in one’s ethical judgement (Espinosa-pike & Barrainkua, 2016; Radloff, 2007) and in perceptions on ethics (Caglio & Cameran, 2017).

#### 4.2.2. Gender

For all of the statements relating to pressures faced to lax professional ethics and professional skepticism, the mode was 4 for males. This means that males mostly agreed that pressures do exist. For the women, the mode was also 4 for all but one statement. For the statement on the decrease in audit hours leading to a compromise in professional skepticism, the mode was 5. The most prevalent response to this statement for women was to strongly agree. The Chi square tests for each of these statements confirmed that there is no statistically significant association between gender and any of the statements – except for statement 22. This is the statement in the research instrument that asserts that conducting professional services with the requisite ethical behaviour normally results in quality work. The p values of the Chi square tests for the statements in this section were 0.465 (statement 19), 0.954 (20), 0.235 (21), 0.050 (22), 0.902 (23), 0.734 (24), 0.970 (25) and 0.633 (26).

Similarly, for the statements on the perceptions on fellow accountants' and auditors' compliance with professional ethics and professional skepticism, both women and men had substantially the same mode. Again, men had a mode of 4 for all the statements – which means that men mostly believe that fellow accountants and auditors do demonstrate the required level of professional ethics and professional skepticism during the performance of their duties. In the case of women, the mode was 4 for all but one of the statements, being the statement on accountants who are preparers of financial statements complying with the applicable ethical requirements of the Code when preparing financial statements. The mode for this statement was the response 3, for women. This suggests that women mostly chose to be neutral on this statement. One can deduce that women have doubts about the ethical compliance of accountants who are preparers of financial statements.

The Chi square tests for each of these statements revealed that there is no statistically significant association between gender and perceptions on compatriots' compliance with professional ethics and professional skepticism. The p values of the Chi square tests for the statements in this section were 0.260 (statement 27), 0.183 (28), 0.120 (29), 0.392 (30), 0.415 (31), 0.895 (32), 0.609 (33) and 0.174 (34).

These results suggest that for both the issue of pressures faced to lax ethics and skepticism, and the issue of the perceptions as to whether professionals adequately deal with these pressures, there is largely no difference the perceptions of men and women. This is contrary to the study of Hottegingdre et al. (2017) which found that there is in fact a difference in the handling of ethical issues between males and females.

#### **4.2.3. Number of years of experience**

The results for this portion of the study were expected to be very similar to those of the age of respondents. This is because, for example, respondents in the age group 22-29 years are presumed to be those who have 0-5 years of experience as qualified chartered accountants. To an extent, this appears to have been the case as there is some similarity in the results between the age groupings and the number of years of experience. As a start, the results of respondents with 6-10 and greater than 15 years of experience were evaluated, as these had the most consistent results. Respondents in the 6-10 years' category had a mode of 4 for all the statements relating to pressures faced by accountants and auditors in the performance of their professional duties. Similarly, respondents in the >15 years' category had a mode of 4 for all but one of the statements. The statement with a different mode was: "the resistance by audit clients to pay for overruns has a negative impact on the quality of audit work performed in future years." The mode for this statement was 5. This is precisely the same result for this statement as with respondents of age 50 and older, in paragraph 4.3.1.

Respondents in the 0-5 years' category strongly agreed with the statements that: (1) conducting professional services with the requisite ethical behaviour normally results in high quality work, and (2) a decrease in audit hours spent on the job sometimes results in a compromise on the expected ethical standards. Firstly, it can therefore be deduced that they view ethical behaviour and quality service as strongly related phenomenon (Margheim et al., 2005). Secondly, that these professionals view a decrease in audit time budget as having a negative impact on ethical standards (Lai et al., 2018).

The Chi square tests for each of these statements revealed that there is no statistically significant association between the numbers of years of experience as a CA and any of the statements – except for statements 19 and 26. Statement 19 asserts that the rapidly evolving economic environment is forcing accountants to lax their professional ethics. The p values of the Chi square tests for the statements in this section were 0.001 (statement 19), 0.483 (20), 0.234 (21), 0.221 (22), 0.563 (23), 0.083 (24), 0.203 (25) and 0.043 (26).

For perceptions on compatriots' compliance with the requirements of ethical behaviour and maintaining professional skepticism, the mode was 4 for all the questions for the least experienced respondents. In the category of 6-10 years of experience, the mode was 4 for but one statement. That sole statement with a differing mode was the statement that asserts that accountants who are preparers of financial statements comply with the SAICA Code of Professional Conduct in performing their professional duties of compiling financial statements. In this case, the mode for the statement was 3 – which is the same as the mode to the same statement for respondents in the age group 30-39 years.

The Chi square tests for each of these statements revealed that there is no statistically significant association between number of years of experience as a CA and perceptions on compatriots' compliance with professional ethics and professional skepticism. The p values of the Chi square tests for the statements in this section were 0.836 (statement 27), 0.077 (28), 0.457 (29), 0.695 (30), 0.570 (31), 0.679 (32), 0.428 (33) and 0.626 (34).

Another interesting result is that of respondents in category of 11-15 years of experience, which contains a mode of 3 for most of the statements. The frequency of this neutral response occurs, surprisingly, more often than is the case in the category of >15 years of experience. Such a response is not the same as what was observed in the analysis of the different age groups in 4.3.1 above.

### **4.3. Professional qualification and region**

A further analysis has been performed on the differences in responses amongst the independent variables of respondents' professional qualification and area of work (region). With respect to the regions, it must be mentioned that the provinces of Gauteng, Western Cape and KwaZulu Natal do hold the overwhelming majority of chartered accountants and registered auditors in South Africa – simply because they house the major economic cities of Johannesburg, Cape Town and Durban, respectively.

#### **4.3.1. Professional qualification**

The responses between chartered accountants and registered auditors were largely similar in terms of the modes computed for the statements on the existence of pressures faced by accountants and auditors to lax professional ethics and professional skepticism. Chartered accountants in particular, had a mode of 4 for all the statements, while registered auditors had a mode of 4 for all but one of the statements. A mode of 5 was recorded for the statement: "Conducting professional services with the requisite ethical behaviour normally results in high quality work." This is a noteworthy outcome in that it demonstrates that auditors feel strongly about the importance of performing professional services in line with the ethical requirements of the profession in order to produce a quality service. This further implies that where professional services are not performed with the requisite ethical behaviour, poor quality work is possible.

The Chi square tests for the statements on pressures faced to compromise ethics and professional skepticism confirm that there is no statistically significant association between professional qualification (whether an individual is an accountant or an auditor) and any of the statements – except for statement 20. Statement 20 relates to accountants being under pressure to meet financial business goals such that these goals take precedence over professional ethical requirements. The p values of the Chi square tests for the statements in this section were 0.456 (statement 19), 0.039 (20), 0.579 (21), 0.206 (22), 0.458 (23), 0.644 (24), 0.987 (25) and 0.891 (26).

The Chi square tests for statements relating to perceptions of compatriots' professional ethics and professional skepticism revealed that there is no statistically significant association between professional qualification and these statements. The p values of the Chi square tests for the statements in this section were 0.737 (statement 27), 0.942 (28), 0.640 (29), 0.820 (30), 0.984 (31), 0.177 (32), 0.195 (33) and 0.217 (34).

#### **4.3.2. Region**

The analysis for this section was performed using the categories of regions used by SAICA, whereas the questionnaire had simply required respondents to name the province. This SAICA regions are as previously described in Chapter 3 of this study.

The results show that there was general consensus on the existence of pressures to lax professional ethics and professional skepticism, within the different regions. The Central region seems to have been the most assertive in terms of holding this view. Three of the statements had a mode of 5 for this region. In contrast, the Southern region had two statements with a mode of 3 – suggesting that they did not perceive the existence of such pressures as much as the Central region.

The Eastern and Northern regions had similar results in that all the statements had a mode response of 4, except for statement 23 for the Northern region – which had a mode of 5. This result is not analysed any further as it is consistent with the overall results of the study.

The Chi square tests for the statements on pressures faced to compromise ethics and professional skepticism confirm that there is no statistically significant association between the region that one operates in and any of the statements. The p values of the Chi square tests for the statements in this section were 0.576 (statement 19), 0.431 (20), 0.316 (21), 0.992 (22), 0.427 (23), 0.074 (24), 0.159 (25) and 0.786 (26).

For responses on the perceptions on their counterparts' compliance with the requirements of professional ethics and professional skepticism, the results were most interesting for the Central region. For this region, results suggest that respondents do

not have a positive perception about their compatriots' compliance with the requisite professional ethics and professional skepticism. This is gathered from the mode of 2 for statement 27, the modes of 3 for statements 28, 31 and 32 – as depicted by Table 4.22 below. Further to this, the majority of the respondents for this region agreed with statement 33 regarding the continued unethical behaviour of some firms providing both the services of preparing financial statements and auditing them, for the same client.

The Eastern region is divided on the statement on accountants exercising the appropriate levels of profession skepticism in high risk environments (statement 32). The results of the Northern region are consistent with the overall results of the study.

The Chi square tests for statements relating to perceptions of compatriots' professional ethics and professional skepticism revealed that there is no statistically significant association between the region of operation and these statements. The p values of the Chi square tests for the statements in this section were 0.379 (statement 27), 0.732 (28), 0.815 (29), 0.511 (30), 0.491 (31), 0.397 (32), 0.969 (33) and 0.978 (34).

#### **4.4. Chapter summary**

This chapter has provided a detailed analysis of the results of the research questionnaire that was completed by sampled respondents through the online platform. Descriptive analysis of the overall findings was presented in this chapter. Thereafter, specific analysis was performed using some of the demographic information as found in Section A of the research instrument. This analysis was informed by existing literature on professional ethics and professional skepticism for accountants and auditors. Pearson's correlation was further presented on the overall results to demonstrate the relationships between the variables in the key themes of the research instrument.

The next chapter will summarise the discussions of the key findings of the study and reach appropriate conclusions – based on the research questions. Finally, some

recommendations will be suggested based on the findings and the concluding discussions.

## **CHAPTER 5: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.0. Introduction**

Chapter 4 presented the empirical evidence of the study within the themes of the research instrument and as informed by the five research questions. This chapter presents the summarised key findings and conclusions in response to the aim of the study and the research questions on perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa.

### **5.1. Overview of the study**

Accountants and auditors remain virtually unchallenged in terms of the quality/accuracy and truthfulness of their work. South Africa had enjoyed seven (7) consecutive years of being rated number one for auditing standards by the World Economic Forum - from 2011-2017 (Moneyweb, 2017). There seem to be more questions than answers now on the issue of the ethical conduct of accountants and auditors from the general society – as evidenced by social and commercial media platforms. Whether the issues raised by these sectors of society are due to lack of relevant information or not, is yet to be ascertained. It is then important to understand the perspective (or perceptions) of accountants and auditors when it comes to the issue of the ethics and professional skepticism in the accountancy profession.

Chapter 1 introduced the topic of the perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa. The chapter provided background information that set the foundation for the purpose of the study and the problem statement. This problem statement informed the following aims of the study:

- to ascertain the actual and perceived implementation of the required ethical behaviour by accountants and auditors,
- to prove the existence of a relationship between the ethical behaviour of accountants and auditors and the quality of work that is produced by the accountants and auditors, and

- to analyse the pressures faced by accountants and auditors to lower their ethical standards during the performance of their professional services.

Chapter 2 then provided a comprehensive literature review that presented an appropriate setting for this study on the perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa. The theoretical framework of the study was confirmed as the agency theory. Various literature was reviewed in light of the research questions – grouped into the three themes of (1) knowledge of ethics and compliance with the ethical requirements (2) pressures faced to lax professional ethics and professional skepticism (3) perceptions on compatriots' compliance with the requisite professional ethics and professional skepticism.

Chapter 3 dealt with the methodology that was used in conducting the study. It explained that a quantitative research design is appropriate for obtaining perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa. This was supported by a similar study, by (Radloff, 2007), on perceptions. The chapter further explained that an online questionnaire was utilised to complement this design method. Respondents were haphazardly selected and the link to the KwikSurveys website communicated in SAICA's weekly newsletter. Data is automatically captured in Excel form in this website, and this Excel information was subsequently coded. The SPSS application was utilised to perform descriptive analysis and inferential statistics. The Cronbach alpha was used to confirm the trustworthiness of the study and further support a case for the reliability of the study.

Chapter 4 provided a detailed analysis of the empirical evidence stemming from the online questionnaire as completed by sampled respondents who are CAs registered with SAICA. Descriptive analysis of the overall findings was presented, following the format of the themes of the study (informed by the research questions). Thereafter, specific analysis was performed using some of the demographic information as found in Section A of the research instrument. Pearson's correlation was further presented on the overall results to demonstrate the relationships between the variables in the key themes of the research instrument.

## **5.2. Conclusions on the knowledge of the CPC and compliance with the CPC**

The first two research questions of this study are:

- Do accountants and auditors have full grasp and appreciation of the behaviours contained in the Code of Conduct? and
- How does the accountant and/or auditor maintain the expected professional ethics and professional skepticism?

In answering these research questions, statements 13 to 18 were presented to the respondents. Overall, the results in this section show that accountants and auditors have awareness of the CPC and they appreciate the relevance thereof. This was evidenced by the majority of the responses to each of the statements in this portion of the questionnaire being “4”. This means respondents agreed that they have knowledge of the requirements of professional ethics and professional skepticism. The need to have a code of conduct in the profession was also confirmed by these results. Therefore, it can be deduced that accountants and auditors value the CPC and view it as useful. This evidence is consistent with prior studies on the relevance of a code of conduct and affiliate members’ knowledge of such a code. Radloff (2007), found that very strong support exists for the current SAICA Code of Professional Conduct – in terms of its relevance robustness. The responses also provided a picture that accountants and auditors view themselves as consistently complying with the ethical requirements of the profession. This is similar to the findings of Massey (2017), in their review of awareness of ethics, which found that students doing accounting are more sensitive to the existence of potential ethical situations than their practicing counterparts. However, the exception was with regards to the requirement to annually attend training sessions on ethics. The majority of the responses to that statement were neutral. This suggests that new strategies have to be developed by the regulators to encourage members to attend ethics training.

## **5.3. Conclusions on the pressures to lax professional ethics and professional skepticism**

The third research question of this study was:

- In the wake of a rapidly evolving global system and general low/weak levels of global economic conditions, how do they maintain the expected professional ethics and professional skepticism?

To answer these questions, statements 19 to 26 of the research instrument were designed and posed to the respondents. Overall, the results of this portion of the survey demonstrate that accountants and auditors do face pressures to compromise their professional ethics and professional skepticism. This is consistent with the findings of previous studies on the existence of pressures to compromise ethics within the accounting and auditing profession (Espinosa-pike & Barrainkua, 2016). These pressures primarily come from clients and make the environment unfavourable for high levels of ethical conduct. The implied assumption of this study was that accountants and auditors would only engage in unethical conduct if faced with pressures to do. Respondents overwhelmingly agreed that the evolving global system and generally weak economic conditions cause accountants to lax the ethical standards of the profession. There was also consensus that business goals are taking precedence over the requirements to maintain sound ethical behaviour. This pressure to meet business goals was also seen to result in accountants lowering their professional skepticism.

Respondents also agreed that performing professional services with the requisite ethical behaviour normally results in high quality work. Therefore, this study confirms that accountants and auditors do experience pressures to compromise on their ethics and these pressures come in the form of business goals, lowered audit time budgets and audit fees budgets. This finding is consistent with the results of other studies which have found that pressures to decrease audit hours and audit budgets result in a decrease in audit quality (Espinosa-pike & Barrainkua, 2016; Lail et al., 2017). Similarly, Grenier (2017) , found that the evolving economic markets and globalisation do have an adverse effect on professional skepticism.

#### **5.4. Conclusions on perceptions on compatriots' compliance with professional ethics and professional skepticism**

The fourth and fifth research questions of this study were:

- In the current economic climate, are accountants and auditors able to strike the required balance between their professional ethics and monetary business goals/targets?
- Do accountants and auditors believe that all their compatriots in the profession are equally implementing the required ethical behaviour in the execution of all their professional duties, as required by the Code of Conduct?

From the data obtained, the perceptions are clearly that fellow accountants and auditors are compliant and do maintain the expected level of professional ethics and professional skepticism. This is despite the existing pressures faced in practice to compromise on these ethics. There was strong agreement that fellow professionals not only know of the requirements of the CPC, but they are also able to adequately identify threats to compliance with the CPC. These results support the study by Caglio & Cameran (2017) , which found that accountants have the most positive perception about their ethical conduct compared to other stakeholders. Furthermore, and as required by the CPC, these fellow professionals are able to implement appropriate safeguards to the identified threats. These results are contrary to what some studies on how stakeholders perceive accountants and auditors to be complying with ethical requirements. Based on the response to the statement regarding accountants and auditors continuing to provide both the services of preparing financial statements and auditing them for the same client (which is not permitted in terms of the ethics code), it would seem most accountants and auditors are in denial of the ethics being in decline. This implies that there are less desirable perceptions amongst members of the profession about the ethical compliance of preparers of financial statements, and about the levels of professional skepticism applied by accountants and auditors.

The fact that respondents agreed with statement 33 equally to the way they agreed with the rest of the statements in this section of the questionnaire is a concern. This is

because statement 33 asserts that accountants and auditors perceive their compatriots to be engaging in unethical behaviour. Whereas the rest of the statements assert that generally, fellow accountants and auditors do comply with the requisite ethical conduct and professional skepticism. Perhaps the respondents do not view this particular non-compliance as being significant. Perhaps they themselves are engaging in this type of non-compliance – which would be contrary to the responses they gave in statements 13 to 18 about their own levels of compliance with the requirements.

### **5.5. Limitations of the study**

In this study, a sample size of 382 registered CAs was selected in terms of the methodology discussed in chapter 3. Of these potential respondents, 82 completed the online survey. This amounts to a response rate of 21 percent. These respondents were also heavily concentrated in three out of the nine provinces of South Africa. Accordingly, no attempt has been made to portray these results as being representative of all CAs in South Africa.

### **5.6. Recommendations for further research**

On the basis of the findings of this study, a few areas for further research have been identified. The low response rate from the rural provinces of Mpumalanga, North West, Eastern Cape and Limpopo perhaps indicates negative sentiments from members in these provinces about the profession. In particular, they could view themselves as rather neglected as more SAICA activity seems to take place in Gauteng, KwaZulu Natal and Western Cape. Therefore, there is room to obtain evidence about the development that regulators such as SAICA and IRBA are bringing to these rural provinces. Further to that, it would also be worthwhile to understand the extent of development brought by government for CAs in these provinces.

Independence is the foundation of the auditing and accounting profession. The new Companies Act of 2008 made it illegal to prepare and audit the same set of financial statement for the same client. The purpose of this prohibition was to enhance

independence and objectivity. In this study, responses to statements related to this prohibition tended to be neutral. There is thus a suggestion that most members believe that this prohibited practice is continuing. This is an area for further research because it is very important for the profession to be rid of this conduct as it severely stalls the efforts to enhance the independence of accountants and auditors.

Finally, results suggested that there are issues with complying with the CPD (training) requirements in the profession. Respondents tended to be neutral on statements regarding compliance with these CPD requirements. One could find that with the emphasis being on meeting business goals, firms are decreasing their training and development budgets year-on-year in order to maximise the bottom-line (profits).

## **5.7. Conclusion**

This chapter has provided an overview and conclusions of this study, based on the aims and research questions. The overview of the study provided background about professional ethics and professional skepticism in the accounting and auditing profession. The study was aimed at obtaining perceptions from chartered accountants about their compatriots' compliance with the requisite professional ethics and professional skepticism. The conclusions reached from the empirical evidence should be useful to regulators, government and executive leadership of accounting and auditing firms. It should add to existing conversations on the current topical issue of ethics in the profession. Most importantly, it should provide some information on what can be done to prevent some of the accounting and auditing failures as seen in the past decade.

This chapter also acknowledged some limitations of the study and presented recommendations for further research.

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## APPENDIX A: QUESTIONNAIRE

### PERCEPTIONS

Dear Sir/Madam

We invite you to participate in this research project. Before you decide whether you want to take part, it is important for you to understand why the research is being done and what your participation will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask us if there is anything that is not clear about which you would like more information.

- In this study we want to ascertain and analyse the perceptions of accountants and auditors on ethical behaviour in the profession within South Africa.
- If you agree to participate, a time will be scheduled for completion of the questionnaire that is expected to take not more than 30 minutes to complete.
- There are no material risks posed by participating. Your identity and place of employment will be kept confidential. No personal information will be collected from you. There are also no right or wrong responses - this research is only interested in your own experiences and impressions.
- Your questionnaire responses will be on file by the researcher but your identity and that of the employer and/or clients will be kept confidential and will not be referred to directly in the final research report.
- You will not receive any compensation for participating in the research.
- Should you be interested, a copy of the final report will be available to you on request.

If you decide to take part, you are still free to withdraw at any time and without giving reason. In addition to withdrawing yourself from the study, you may also withdraw any data/ information you have already provided up until is transcribed for use in the final report.

If this study has harmed or offended you in any way you can contact the University of KwaZulu- Natal using the details below for further advice and information.

<u>Details</u>	<u>Researcher</u>
<b>Name</b>	Rudolf Mbanjwa
<b>Contact Number</b>	0605081599
<b>Email Address</b>	sirrudolf@webmail.co.za

**CONSENT FORM FOR PARTICIPANTS IN RESEARCH STUDIES**

**Please complete this form after you have read the Information Sheet and/or listened to an explanation about research.**

**Title of Study:** Perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa.

**Ethics Committee Ref:** HSS/0932/018M

<b>Details</b>	<b>Please tick or initial</b>
I understand that if I decide at any time during the research I no longer wish to participate in this project, I can notify the researcher involved and withdraw from it immediately without giving any reason. Furthermore, I understand that I will be able to withdraw my data up to the point of submission of my response.	
I understand that the information I have submitted will be published in a Master's thesis and that I can request a copy of the final thesis.	
I understand that my personal information will not be collected. My identity and that of my employer and/or clients will be kept confidential and will not be referred to directly in the final report.	
I consent to my interview being used in the research final results.	

**Participant's Statement:**

I \_\_\_\_\_ agree that the research project named above has been explained to my satisfaction and I agree to take part in the study. I have read both the notes written above, about the project, and understand what the research study involves.

**Signed** \_\_\_\_\_ **Date** \_\_\_\_\_

**Section A: General Information**

5. Name (Optional):

6. Age:

Under 22 years	22-29 years	30-39 years	40-49 years	50 years and above
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7. Gender:

Male	Female	Other
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8. Province (work):

Eastern Cape	Northern Cape	Western Cape	Free State	North West
Gauteng	KwaZulu Natal	Limpopo	Mpumalanga	

9. Highest qualification (Academic):

Honours' degree (CTA)	Masters' degree	Doctorate degree	Other
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10. Professional qualification:

Chartered Accountant	Chartered Accountant & Registered Auditor
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11. Level (Position):

Assistant Manager	Manager	Senior Manager	Director	Other
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12. Number of years of experience as a CA:

0-5 years	6-10 years	11-15 years	More than 15 years
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## Section B: LINKERT SCALE ANALYSIS FOR ACCOUNTANTS AND AUDITORS

**Instructions:** You are required to respond to the statements below by ticking ("X") the most appropriate column in your view. The following rating scale is used to respond to the questions:

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
<b>KNOWLEDGE OF ETHICS</b>						
13.	You have full knowledge and understanding of the SAICA Code of Professional Conduct.					
14.	Annually, you attend training sessions on Ethics.					
15.	You have frequently demonstrated that you are well able to identify any potential threats to compliance with the Code of Professional Conduct.					
16.	You have demonstrated frequently that you are well able to implement appropriate safeguards to potential threats identified.					
17.	You are always alert to ethical dilemmas during the performance of your work.					
18.	You exercise the appropriate level of professional skepticism in environments prone to unethical conduct.					
<b>PRESSURE TO COMPROMISE ON ETHICS</b>						
19.	The rapidly evolving global economic system and the generally weak global economic conditions are forcing accountants to lax the ethical standards of their profession.					
20.	Accountants are under pressure to meet financial business goals, such that these goals take precedence over their ethical standards.					
21.	The pressure to meet financial business goals usually results in accountants exercising lower professional skepticism.					
22.	Conducting professional services with the requisite ethical behaviour normally results in high quality work.					
23.	A decline in audit fees normally results in the audit team having to decrease the hours spent on the job.					
24.	A decrease in the audit hours spent on the job sometimes results in a					

	compromise on the expected ethical standards.					
25.	A decrease in the audit hours spent on the job sometimes results in a compromise on the expected professional skepticism.					
26.	The resistance by audit clients to pay for overruns has a negative impact on the quality of audit work performed in future years.					
<b>PERCEPTIONS OF COMPATRIOTS</b>						
27.	Accountants who are preparers of financial statements comply with the SAICA Code of Professional Conduct in performing their professional duties of compiling financial statements					
28.	Registered Auditors and their professional staff have a sound understanding of the SAICA Code of Professional Conduct.					
29.	Accountants frequently demonstrate that they are well able to identify any potential threats to compliance with the Code of Professional Conduct.					
30.	Accountants demonstrate frequently that they are well able to implement appropriate safeguards to potential threats identified.					
31.	Accountants are always alert to ethical dilemmas during the performance of their work.					
32.	Accountants exercise the appropriate level of professional skepticism in environments prone to unethical conduct.					
33.	Certain firms continue to provide the services of both preparing the financial statements and auditing them, for the same client.					
34.	Most accountants and auditors are honest in their completion of the annual Continuing Professional Development hours.					



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INYUVESI  
YAKWAZUW-NATALI

08 November 2018

**Mr Rudolf Mfundo Mbanjwa (206522094)**  
School of Accounting, Economics & Finance  
Westville Campus

Dear Mr Mbanjwa,

**Protocol reference number: HSS/0932/018M**

**Project title:** Perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa

**Approval Notification — Expedited Application**

In response to your application received 11 July 2018, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**

**Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.**

**PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.**

**The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.**

**I take this opportunity of wishing you everything of the best with your study.**

Yours faithfully

.....  
Dr Shamila Naidoo (Deputy Chair)

Cc Supervisor: Professor Mabutho Sibanda and Ms Hlengiwe Ndlela  
Cc Academic Leader Research: Professor Josue Mbonigaba  
Cc School Administrator: Ms Seshni Naidoo

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Humanities & Social Sciences Research Ethics Committee  
Professor Shenuka Singh (Chair)

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Website: [www.ukzn.ac.za](http://www.ukzn.ac.za)

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# SAICA

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10 September 2018

Mr Rudolf Mbanjwa (SN: 206522094)  
School of Accounting, Economics & Finance  
College of Law & Management Studies  
Westville Campus  
UKZN  
Email: sirrudolf@webmail.co.za

RE: PERMISSION TO CONDUCT RESEARCH

Dear Mr Mbanjwa,

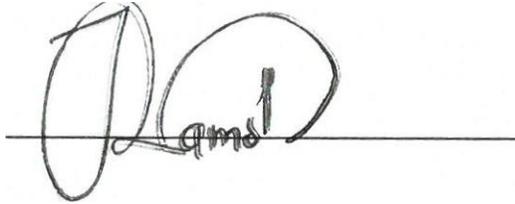
Gatekeeper's permission is hereby granted for you to conduct research at the South African Institute of Chartered Accountants, towards your Masters, provided Ethical clearance has been obtained. We note the title of your research project is:

"Perceptions of accountants and auditors on professional ethics and professional skepticism in South Africa. "

It is noted that you will be constituting your sample with a request for response through completion of a questionnaire. The questionnaire will be communicated to the participants electronically.

Please note that the data collected must be treated with due confidentiality and anonymity.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Fanisa Lamola', is written over a horizontal line. The signature is stylized and cursive.

Fanisa Lamola

Acting SAICA CEO