

# The Impact of Professional Accounting Ethics in Quality Assurance in Audit

**Oraka, Azubike Onuora**

Department of Accountancy, Nnamdi Azikiwe University, P. M.B. 5025. Awka.

Anambra state, Nigeria

Email: zubbike@gmail.com

**Okegbe, T. O.**

Department of Accountancy, Nnamdi Azikiwe University, P. M.B. 5025. Awka.

Anambra state, Nigeria

DOI: 10.6007/IJARBSS/v5-i8/1761 URL: <http://dx.doi.org/10.6007/IJARBSS/v5-i8/1761>

## **Abstract**

This study assesses the impact of professional accounting ethics in quality assurance in audit. Data for the study were collected from both primary and secondary sources. The data collected were analyzed with means score and standard deviation and the three formulated hypotheses were tested with z-test statistical tool. Based on the analysis, the study found among others that quality assurance in audit has enhanced investors' confidence in the reliability of audited accounts and Professional ethics of independence have significant impact on quality assurance hence, Professional ethics is essential in quality assurance in audit as it enhance independent of auditor. Based on this, the researcher recommends that Professional accountants should be trained for the task ahead before being deployed to the field and induction training should be provided to new auditors on the fundamentals of carrying out a quality auditing exercise.

**Key words:** Professional Accounting, quality assurance, Audit

## **Introduction**

Ethics in professional Accounting are of utmost importance. Now that widespread corruption in the society and the failure of organization in every parts of the world have once more increased the need for accounting professionals to adhere strictly to the codes of professional ethics prescribe by international Accounting bodies. According to Ogbonna and Appeah (2011), the widespread corruption in the business environment seems to be the order of the day in all societies.

Accountants have obligations to shareholders, creditors, employees, suppliers, the government, the accounting profession and public at large Therefore, behaving ethically is an essential and expected trait; as a result an accountant is responsible for the consequences of his moral choices not only for his own life but also on the lives of other people.

The nature of the work carried out by accountants and auditors requires a high level of ethics shareholders, potential shareholders and other users of the financial statement rely heavily on

the yearly financial statement of accountant as they can use this information to make an informed decision about investment, they rely on the opinion of the accountants who prepare the statement as well as the auditors that verified it to present a time and fair view of the company knowledge of ethics and can help accountants and auditors to overcome ethical dilemmas, allowing for the high choice that although may not benefit the company will benefit the public who relies on the accounts auditor's report.

Over years, allegations and scandals of unethical conduct have been directed towards managers (in general and accounts/auditors in partial in virtually all segments of the society, including government, business, charitable organization and even in religion Garrison (2003). However, it is observed that globally including Nigeria there is increasing attraction between the accounting firms and companies Idris (2007) that has created a situation which has erode of public confidence in the number of legalized accounting firms and companies.

However, any organization that lacks ethical considerations may not survive for long time to achieve its desired goals and objectives of its stakeholder. If investors lose confidence in the reliability of numbers that are presented to the market will suffer grievously.

### **Objective of the Study**

Broadly the main objective of this research work is to identify and highlight the impact of professional Accounting ethics in quality assurance in auditor.

This study will in more specific term attain the following Objectives:

1. To determine whether there is a relationship between quality assurance and professional ethics.
2. To determine whether quality assurance in auditor has enhanced investors' confidence in the reliability of audited accounts.

### **Research Question**

1. Is there any correlation between quality assurance in audit and professional ethics?
2. To what extent has the quality assurance audit has investors' confidence in the reliability of audited accounts.

### **Formulation of the Hypotheses**

1. **H<sub>0</sub>**: There is no relationship between quality assurance in audit and professional ethics.
2. **H<sub>0</sub>**: The level of Quality assurance in audit has not enhanced investors' confidence in the reliability of audited accounts.

### **Review of Related Literature**

#### **Concept of Financial Reporting**

Financial reporting according to Nzotta (2008) is a critical issue which affects the decision making process of various individuals, corporate bodies, investors and policy makers. Glautier and Under down (2001) says that the primary objective of financial reporting is to communicate

economic measurement of an information about resources and information about the resources held by entity and performance of the reporting entity, useful to those having right to such information.

According to Alexander and Britton (2000), the fundamental objectives of corporate report is to communicate economic measurements of and information about the resource and performance of the reporting entity useful to those having rights to such information. Nzotta (2008) stated that financial reports assist the user in evaluating the past and present performance of the organization and it's ability to maximize the wealth of the shareholders furthermore, it assesses the ability of the firm to create value and objective assessment of the value created over time financial reports insights into these resources held by an organization, the claims to these resources including the obligation of the firm to transfer resource to other entities and owners and the effects of transactions, events and circumstances that change its resource and claims to these resources (Glauter and underdown, 2001; Nzotta 2008).

Belkaoni (2002) noted that qualities of financial reports include relevance, understandability, reliability and completeness, Objectivity, timeliness and comparability. Best et al (2009) observed that the fundamental qualitative characteristics (that is, relevance and faithful representation) are most important and determine the context of financial reporting information. The enhancing qualitative characteristics (that is understand ability, comparability, verifiability and timeliness) can improve decision usefulness when the qualitative characteristics are established. To assess the quality of financial reporting, various measurement methods have been used. The most widely used in prior research to assess the quality of financial reports include accrual models, value relevance models, research focusing specific elements in the annual report, and methods of operationalizing the qualities characteristics.

### **Theoretical and Empirical of the Study**

The nature and scope of ethics: Ethics are the moral principles that an individual uses in governing his or her behaviour. It is the personal criteria by which on individual distinguishes "right or wong" (Ogbonna and Appah, 2011). According to Ogbonna (2010), when we talk about things, which we think, say and/or practice that may not necessarily violate the rules of the organization or infringe the law of the land or amount to outright crime or felony, but which borders on our sense of morality, our sense of right and wrong.

They concern issues like conflict of interest, insider's dealings, compromising integrity, objectivity, independence, confidentiality, disclosure of official secret and destruction of official documents for financial benefits and other similar acts that are against moral principles and ethical standards. Nwagboso (2008) argue that ethics or morality as matter of right and wrong and subscribes to the fact that "we are living today in an ethical wilderness". Nwagboso believes that ethics is in ferment and chaos among all people Hayes et al (1991) opined that ethics represent a set of moral principles, rule of conduct or values. Ethics apply when an individual has to make decision from various alternative regarding moral principles. Ethical behavior is necessary for society to function in an orderly manner. The need for ethics in society is sufficiently important that integrity, loyalty, and pursuit of excellence cannot be incorporated into law. They further stated that the following ethical principles incorporate the characteristics

most people associate with ethical behavior & honesty, integrity, promise keeping, loyalty, fairness, caring for others, pursuit of excellence and accountability

Ajibolade (2008) states that the field of ethics can be divided into Meta ethics, ethical theories and applied ethics. Meta ethics reflection is upon ethics concepts and theories ethical theories is the substantive proposals regarding those considerations that would determine morally acceptable conduct and applied ethics is the deliberation related to a specific field of enquiring. Examples include ethics in business, public service and general professional ethics. Mathew and Perera (1996) states that a formal code of ethics ensures that professional members will be more aware of the moral aspects of their work, an accessible reference tool for managers to keep ethical concerns in mind; abstract ideas will be translated into concrete terms applicable to every situation, members as a whole will act in a more standardized fashion throughout the profession.

According to Jenfa (2000) and Nwagboso (2008), professional ethics provides account with these advantages: it helps the accountants to determine the prosperity of his conduct in his professional posture the accountant must maintain if he is to succeed; it gives potential clients a basis for feeling confident that the professional sincerely desires to serve them well and places service above financial reward; it gives client assurance that standards of competence independence and integrity shall remain the goal regulatory authorities to fulfill their responsibility of ensuring that the professional accountants have the capabilities and competence expected of them by employees, clients and public interest is protected and the credibility of the profession is enhanced.

#### **Ethical Standards in the accounting profession:**

Nwagboso (2008) says that accounting is a profession that rests heavily on the need to exhibited a high sense of accountability and stewardship, hence the emphasis that all members be guided by professional code of conduct. (Aguolu 2006; Okezie 2008; Nwagboso, 2008).

Nwanyanwu 2010; Ogbonna and Appah 2011) provided the fundamental guidelines applicable to all accountants. These guidelines include:

**Integrity:** This is the quality being honest and having strong moral principles. It implies not merely honest but fair dealing and truthfulness. This principle of integrity imposes an obligation on all accountants to be straight forward and honest in professional and business relationships.

**Objectivity:** The Principle of objectivity imposes the obligation on all professional accountants to be fair intellectually honest and free from conflicts. This principle requires four basic needs of credibility, professionalism, quality of service and confidence.

**Professional competence:** A professional accountant, in agreeing to provide professional services implies that he is competent to perform the service. Accountant should refrain from agreeing to perform professional services which they are not competent to carry out unless competent advice and assistance are obtained.

**Confidentiality:** A professional accountant should respect the confidentiality of information acquired during the course of performing professional services. They should not use or disclose any such information without proper and specific authority.

**Independence:** Independence means having, a position to take an unbiased viewpoint in the performance of professional assignments. Accountants must not only maintain an independent attitude in fulfilling their responsibilities, but the users of financial reports must have confidence in that independence.

**Technical standards:** professional service should be carried out in accordance with the relevant technical and professional standards. The services should conform to the technical and professional standards of relevant accounting bodies and other legislation.

### **Ethics in Accounting Profession**

“Ethics” is a term subject to numerous, sometimes Conflicting, Intergradations (Luoma, 1989). Ethical problems are a very relevant issue present in many aspects of real life. These situations can be examined through several branches and under several grids of analysis, modern or classic (Filipe et al 2011). A squishing mark of the accounting profession is its acceptance of the responsibility to act in the public interest (IFAC, 2005). Key qualities which appear in the codes of ethics of professional bodies include independence, integrity, objectivity, competence and judgment for example, the ICAEW’s introduction to its ‘Guide to professional Ethics’ (ICAEW, 1997) include a list of five fundamental principles which either expressly mentions or clearly implies all of these qualities, along with other related qualities such as honesty, fair-dealing, truthfulness, courtesy, skill and diligence (Growthorpe, 2005).

Because of the importance of the issue, many researchers in developed countries have conducted studies on accounting ethics education. They have indicated that ethics education must be given in business schools for the development of future generations (aliyurt, 2007). Ethics education helps students identify the link between ethical decision-making and real-life behavior (Helps, 1994). Abu Bakar et al, (2008) explore the ethical attitudes of the final year accounting students. The study indicates that the majority of respondents would prefer not to indulge in unethical behaviour. Professional ethics has significant position in the organization of that federation of Accounting Professions (FAP) and in Australia, ethics are at present the responsibility of an accounting Professional and Ethical standards Board limited (Gaffikin, 2009).

### **Professional Ethics and Qualitative Characteristics of Financial Reporting**

The quality of financial reporting indicates a limit in which the financial reports of a company, its economic status, and functions, which are measured over period of time, are presented honestly (Talebria et al, 2001). Truthfulness of and trust in the financial reporting system depend on far more than the actions and decision of individuals or sophisticated ‘mechanisms’ for the whole system (Enderle, 2006). Companies in the energy, accounting and banking industries and the Professional Associations of the Certified Public Accountants, the investment managers and researchers have, in varying degrees, affected the quality of and confidence in the financial reporting systems. Therefore, truthfulness of and trust in the financial reporting system cannot be a matter of either personal or institutional ethics alone (Brenkert, 2004).

In 1980 the President of AICPA Willian Gregory warned members over the fact that “accountants have subordinated courtesy, mutual respect, self-restraint and fairness for a quest for firm growth and a pre-occupation with the bottom line”. Representatives of the big

firms however denied ethical responsibility for the corporate scandals that occurred. According to them what happened between Enron and Andersen was not so much a consequence of the lack of ethics on the part of the auditors, but was due to the failure in the current financial reporting system that advocated for 'backward-looking' financial statements (Catecutan, 2006). Behaving ethically in accounting is more important than auditing because system prepares financial statements for auditing (Mahdauichou, 2010).

### **The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements**

An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.<sup>3</sup>

As described in ISA 2004 the potential effects of inherent limitations are particularly significant in the case of misstatement resulting from fraud. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion.

Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. The auditor's ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error (Asif, 2010).

Furthermore, the risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees.

When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. The requirements in this ISA are designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement (Asif, 2010).



## **Audit Quality**

As a consequence, there is no single agreed definition of audit quality that can be used as a 'standard' against which actual performance can be assessed. An auditor's opinion as to whether the financial statements are 'true and fair' is subjective. Different views may be held as to the extent and nature of audit evidence required to support the opinion. Regarding the discussion, the paper addressed the Financial Reporting Council's objective of promoting and maintaining confidence in the audit process and the resulting audit report as a key component of the corporate reporting and governance regime and the effective operation of capital markets.

In order for that confidence to be justified, the Financial Reporting Council believes that users of financial reports must be able to rely on an audit report giving a robust and objective opinion that the financial statements concerned show: a true and fair view; have been properly prepared in accordance with the applicable accounting framework; and have been prepared in accordance with the relevant legal requirements. According to Francis (2004), there is also evidence of voluntary differential audit quality (above the legal minimum) along a number of dimensions such as firm size, industry specialization, office characteristics, and cross-country differences in legal systems and auditor liability exposure. Audit quality is inversely related to audit failures: the higher the failure rate, the lower the quality of auditing. Absolutely, audit failures are difficult to determine with certainty but can be inferred from several sources including auditor litigation and business failures, investigations by the Securities and Exchange Commission (SEC), and earnings restatements. Another aspect, audit quality can be defined as the probability that an error or irregularity is detected and reported (DeAngelo, 1981). This probability measures the extent to which the assurance given by the auditor is indeed justified. The detection probability is affected by the contents of the audit, which refer to the actual work done by auditors to reach their opinion. Issues related to the contents of the audit are competence of the auditors (eligibility and qualifications), requirements regarding the conduct of the audit (quality review and monitoring), and reporting requirements. The reporting probability is affected by the auditor's independence. High independence implies a high probability of publicly reporting a detected material error or irregularity. Issues related to independence are appointment and termination procedures, restricted or prohibited activities (e.g., relationships with companies), and mandated activities (e.g., communication between auditors). Likewise, Elitzur and Falk (1996) defined audit quality as the amount of standardized units of audit evidence gathered by the independent auditor. The credibility which an independent audit adds to management's financial statements depends on: 1) the probability of an independent auditor detecting material errors, misrepresentations or omissions and 2) the probability that the independent auditor will report the evidence truthfully (DeAngelo, 1981; Agee and Zing, 1990). The former, which is the focus of our study, is enhanced by the gathering of audit evidence, and the latter, normally referred to as auditor independence, is conditional on the nature of the gathered audit evidence. It is assumed that, *ceteris paribus*, the probability of detecting material errors increases with the quantity of audit evidence. Additionally, audit quality refers to the probability that the auditor will both discover and report a breach in the client's accounting system (DeAngelo, 1981).

Consequently, the definition of audit quality in this study is defined as the amount of standardized units of audit evidence gathered by the independent auditor (Elitzur and Falk, 1996).

### **Professional Knowledge of Auditor**

Professional knowledge is consisting of practical wisdom or insight and understanding which enables teachers to achieve educational and moral objectives in practice (Elliott, 1991). Professional knowledge in this study defines as both technical and practical knowledge. The first component of professional knowledge is technical knowledge that refers to knowledge originates from abstractions and conceptualizations derived from working practice (Walker and Sibson, 1998). Upon examining professional knowledge, its nature and function, technical knowledge, and the intangible qualities which necessary for auditors manager to be successful, the realization that the domains are reliant upon each other to sustain the most important element--the human resource. Technical knowledge that has been designed and managed must be supported with intangible professional, leadership, and personal qualities for a human resources manager to be successful. Another view point in technical knowledge is not the same, generally speaking, as a product-type good, and it is not produced to be sold. The reason why technology transfer takes place is because of the needs that both sides to the technology transfer have. Because significant differences exist in terms of the level of technology of the technologically-advanced and the technologically-backward, and it is also difficult to rely on one's own efforts to upgrade one's own level of technology, those that are technologically-backward will cooperate with technologically-advanced organizations. The market for technology may thus be seen as a market in which monopolistic competition prevails. Both the product and the manufacturing process have their own special characteristics, to the extent that each of them has different patents. For these reasons, because of competition, the technology itself actually becomes a kind of product. It is actually quite difficult to make technology a monopoly. From mentions earlier, the comprehensive definition of technical knowledge in this study is the specific information about facts and proven methods of problem solving and information which is required to define and understand the problems a professional is confronted with. The second component of professional knowledge is practical knowledge. Whereas, the distinguish way refer practical knowledge as three domains in which knowledge should be developed for pedagogy as a branch of educational science, namely the ideological, empirical and technological domains of knowledge (Riedel, 1977). By analogy, we have assumed that auditors also develop knowledge in these domains themselves in order to act with a purpose, taking responsibility for their own actions. This knowledge can be defined as three aspects. Firstly, it means the ideological domain of knowledge is concerned with insight into their educational and moral norms and values, and into concrete objectives derived from these. Secondly, it implies the empirical domain of knowledge is concerned with insight into the connections between phenomena in their educational reality. Lastly, practical knowledge is the technological domain of knowledge is concerned with insight into educational methods, techniques and strategies that they can use. The example of practical knowledge is at the



center of a teacher's professional practice (Cervero, 1988). There are four characteristics of practical knowledge. First, practical knowledge is time bound. Second, practical knowledge is situation specific and does not translate easily to other, even similar, circumstances. Third, practical knowledge is personally compelling. While information acquired in a professional development seminar might be interesting, it will not cause the teacher to alter practice unless the specific problem addressed is one the teacher is currently facing in the classroom. Finally, practical knowledge is directed toward action. The information is acquired "in use" with the professional giving meaning to the new information even as he or she is deciding the next action to take (Schon, 1987).

Moreover, practical knowledge maintains the capacity to develop these meta-structures that can be developed through reflective practice (Schon, 1987). Reflective practice requires that professionals engage in a "dialogue with themselves and their environments" in which they review the problems that are part of their daily practice. The professional, confronted with a "surprise" problem, uses intuition and stored knowledge to attempt solutions, with each attempt becoming increasingly closer to an appropriate solution. Throughout this process, the professional is forced to question assumptions about the knowledge base, causing a restructuring of strategies of action and understandings of the phenomena that occurred. Once the solution is reached, each episode of "reflecting in action" thus causes the professional to alter practice behavior by adding new information to the store of professional knowledge. This also increases the body of expert knowledge and makes it less differentiated, allowing the professional to transfer knowledge across practical situations (Schon, 1987).

Another aspect, professional knowledge is an own past experience through the present mind and body as well as in the future plans and actions (Connelly and Clandinin, 1988). For example, practical knowledge is found in the teacher's practice. It is, for anyone, a particular way of reconstructing the past and the intentions of the future to deal with the exigencies of a present situation. Likewise, auditor is an independent professional occupationist that has practical knowledge resemble teacher, thus this study defines practical knowledge is a knowledge in the past through present and future via own experience. Practical knowledge can produce the quality of audit tasks, such as reliability and credibility on financial statement. Possibly, auditors who have more practical knowledge also will be a good image. Finally, both technical and practical knowledge are essential for an independent occupation like an auditor. An integrative view point of this knowledge is initiated as professional knowledge which has an effect on the quality of auditing works that called audit quality in this study.

### **Research Design**

According to Ogolo (2007) is an outline that serves as a useful guide to the researcher in his work, and in his effort to generate data for the study. It describes the process, and methods and procedure for data and information gathering. The design of this study is done in such a way to covert as necessary and relevant data, records and information that would help in attaining the objectives, and help us to test the hypotheses, to control variances and minimize error.

### **Population of the Study**

The population for the study consists of the 19 branches of commercial banks in Enugu metropolis of Enugu state. The total number of such official is 95.

In determination of sample size for the study, the researcher used judgmental sample to pick five (5) banks from Enugu which includes; First Bank, Eco Bank, UBA, Fidelity Bank And Diamond Bank.

Considering the population size which is large, and to reduce the size of the population to a manageable size. The researcher uses Yaro Yamane's formula to determine the sample size to be used for the study.

$$\text{This sample size } n = \frac{N}{1+N(e)^2}$$

n = Sample size

N = Population of the study

e = error margin or level of significance (5%)

l = Constant

N = 95

Applying the formula;

$$n = \frac{95}{1 + 95(0.05)^2}$$

$$n = \frac{95}{1.2375}$$

$$n = \underline{77}$$

### **Method of Data Analysis**

Data collected for the study were analyzed by the researcher using frequency counts, mean score. The three research questions were answered hypothetically; the hypotheses were analyzed in the following order; Data relating to research question one, two and three were analyzed to determine mean score (x). A mean score of three (3) and above was regarded as an accepted mean to test research question. While a mean score of 2.99 and below was regarded as rejection to test the research question. The three hypotheses were tested using Z-test. This was done to ascertain to test significance of different in mean between the two population mean when the sample size is large. The three null hypotheses were tested at 5% level of significance.

Using z-test

$$z = \frac{x - \mu}{\frac{\sigma}{\sqrt{n}}}$$

Where x= sample mean

μ = population mean

σ = standard deviation

n= sample size

### **Questionnaire Distribution and Collection**

The researcher shall through the aid of a table describe the distribution and collection of the questionnaire of the study as shown below:

Out of 77 copies of questionnaires were distributed, and 69 were returned, this represent 88%.

### Analysis of Data

**Table 1: summary of Research question one**

S/N	Statements	SA	A	UN	SD	D	TOTAL
1	Quality assurances in audit improve the professional ethics.	40 (200)	20 (80)	3 (9)	6 (12)	0 (0)	69 (301)
2	Professional knowledge helps in producing the quality of audit task.	35 (175)	20 (80)	4 (12)	7 (14)	3 (3)	69 (284)
3.	Reliability and credibility on financial statement depend on the professional knowledge.	38 (190)	11 (44)	4 (12)	10 (20)	6 (6)	69 (272)
4.	Professional ethics is essential in quality assurance in audit as it enhance independent of auditor.	30 (150)	18 (72)	9 (27)	12 (24)	0 (0)	69 (273)
5.	For an auditor to produce a quality result, the experience of professional ethics should be of most important.	48 (240)	10 (40)	5 (15)	6 (12)	0 (0)	69 (307)

Source: field survey, 2015

**Table 2: The summary of Research Question two**

S/N	Statements	SA	A	UN	SD	D	Total
6	Quality assurance in audit enhances reliability of financial statement.	30 (150)	12 (48)	8 (24)	10 (20)	9 (9)	69 (251)
7	Quality assurance in audit enhance is added more credibility and acceptance in audited accounts.	20 (100)	25 (100)	6 (18)	15 (30)	3 (3)	69 (251)
8.	Ethical and professional accounting forms a clear financial image of a business and allows manager to make informed decisions.	37 (185)	21 (84)	0 (0)	11 (22)	0 (0)	69 (291)
9.	Investors are more relax in making a variable decision on their investment with quality of accounts in question.	28 (175)	30 (188)	1 (3)	7 (14)	3 (3)	69 (280)
10.	More confidence is being attracted to the quality assurance in audited accounts.	42 (210)	19 (76)	8 (24)	0 (0)	0 (0)	69 (310)

Source; field survey, 2015

### Test of Hypotheses

#### Hypothesis One

**HO:** There is no correlation between quality assurance in audit and professional ethics

**Hi:** There is correlation between quality assurance in audit and professional ethics.

**Question:** this hypothesis is tested using the responses from questions 1 to 5 will be analyzed and used for testing this hypothesis.

$$\text{Mean of population (u)} = \frac{3 \times 69 \times 5}{5} = \underline{207}$$

$$\text{Mean of sample (x)} = \frac{\sum x}{n} = \frac{1437}{5} = \underline{287}$$

$$\text{Standard deviation (s)} = \sqrt{\frac{\sum (x-x)^2}{n}} = \sqrt{\frac{1026}{5}} = \sqrt{205} = \underline{14.32}$$

$$Z = \frac{x-u}{\frac{SD}{\sqrt{n}}} = \frac{287-207}{\frac{14.32}{\sqrt{5}}} = \frac{80}{6.39} = \underline{12.52}$$

**Decision:**

Since the z-test calculated value is greater than the critical value, 12.52>1.96 at 5% level of significance, we reject null hypothesis and up hold the alternative hypothesis which states that there is correlation between quality assurance in audit and professional ethics.

**Hypothesis Two**

**HO:** Quality assurance in audit has not enhanced investors' confidence in the reliability of audited accounts.

**Hi:** Quality assurance in audit has enhanced investors' confidence in the reliability of audited accounts.

**Question:** this hypothesis is tested using the responses from questions 6 to 10 will be analyzed and used for testing this hypothesis.

$$\text{Mean of population (u)} = \frac{3 \times 69 \times 5}{5} = \underline{207}$$

$$\text{Mean of sample (x)} = \frac{\sum x}{n} = \frac{1388}{5} = \underline{278}$$

$$\text{Standard deviation (s)} = \sqrt{\frac{\sum (x-x)^2}{n}} = \sqrt{\frac{2635}{5}} = \sqrt{527} = \underline{22.95}$$

$$Z = \frac{x-u}{\frac{SD}{\sqrt{n}}} = \frac{278-207}{\frac{22.95}{\sqrt{5}}} = \frac{71}{10.25} = \underline{6.73}$$

**Decision:**

Since the calculated value of Z is greater than the critical value, 6.73>1.96 at 5% level of significance, we reject null hypothesis and up hold the alternative hypothesis, which states that quality assurance in audit has enhanced investors' confidence in the reliability of audited accounts.

**Summary of Findings**

Based on the literature reviewed and data analyzed, the following findings were drawn:

1. That there is correlation between quality assurance in audit and professional ethics.

2. Quality assurance in audit has enhanced investors' confidence in the reliability of audited accounts.
3. Professional ethics of independence have significant impact on quality assurance hence, Professional ethics is essential in quality assurance in audit as it enhance independence of auditor.
4. it's also revealed that quality assurances in audit keep investors abreast of development in the business and expose the efficiency of the business.
5. Also for an auditor to produce a quality result, the experience of professional ethics should be of most important.

### **Conclusions**

The aim of the research was to explore the impact of professional accounting ethics in quality assurance in audit. A lot of research findings were discussed which made a vast contribution to the body of knowledge concerning professional accounting ethics and quality assurance in audit.

The research has shown that to a greater extent the professional accounting ethics has effective in ensuring quality audit. An important factor contributing to the success of the audit is ability to be independent, to act as a 'watchdog' and to conduct audits timeously.

The researcher has noted that lack professional accounting ethics however are generally contributing to the ineffectiveness of quality assurance in auditing of accounts of financial sector which would have encouraged keeping of accurate records of accounts hence discouraged corrupt practices among staff.

### **Recommendations**

Based on the findings of this study, the researcher made the following recommendations;

1. Professional accountants should be trained for the task ahead before being deployed to the field and induction training should be provided to new auditors on the fundamentals of carrying out a quality auditing exercise.
2. The quality of financial reporting should show a limit in which the economic status and functions of corporate institutions measured in a period of time.
3. The Auditor should be responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement.
4. In order to reduce audit process auditing should come at least twice a year or more frequently rather than wait for the financial year to come to an end.

### **References**

- Aaker, D.A., Kumar, V., and Day, G.S. (2001), *Marketing Research*. New York: John Wiley and Sons, 2001.
- Agee, R.P., and Zing, M-C. (1990)"Audit Pricing and Independence", *The Accounting Review*, Vol. 65(2), 1990, 315-336.
- Al-Tuwaiji, S.A., Christensen, T.E. and Hughes, K.E. (2004) "The Relations among Environmental Disclosure, Environmental Performance, and Economic Performance: A Simultaneous

- Equations Approach", *Accounting, Organizations and Society*, Vol. 29(56), 2004, 447-471.
- Armstrong, J. S., and Overton, T.S.(1977) "Estimating Non-response Bias in Mail Surveys", *Journal of Marketing Research*, Vol. 14 (3), 1977, 396-402.
- Ashton, A.(1991) "Experience and Error Frequency Knowledge as Potential Determinants of Audit Expertise", *The Accounting Review*, Vol. 66 (2), 1991, 218-239.
- Aulakh, P.S., Kotabe, M., and Teegen, H. (2000)"Export Strategies and Performance of Firms from Emerging Economies: Evidence from Brazil, Chile, and Mexico", *Academy of Management Journal*, Vol. 43(3), 2000, 342-361.
- Barney, J.B. (1995)"Looking Inside Competitive Advantage", *Academy of Management Executive*, Vol. 9(4), 1995, 49-61.
- Barney, J.B. (1997)" Gaining and Sustaining Competitive Advantage, Reading, Massachusetts: Addison-Wesley Publishing Company, 1997.
- Breaugh, J.A.(2006) "Rethinking the Control of Nuisance Variables in Theory Testing", *Journal of Business and Psychology*, Vol. 20(3), 2006, Spring.
- Carr, P.D. (1999) "Collaborative Online Learning: The Importance of Group Size, The Athabasca MBA Experience", *Connecting Canadians Conference*, March 19-20, 1999, Grande Prairie, Alberta.
- Cervero, R.M. (1988) "Effective Continuing Education for Professionals. San Francisco: Jossey-Bass, 1988.
- Ching, C., Holsapple, C.W. and Whinston, A.B. (1992) "Reputation, Learning and Coordination in Distributed Decision-Making Contexts", *Organization Science*, 3(2), 1992, 275-297.
- Clark, B.H., and Montgomery, D.B. (1998) "Deterrence, Reputations, and Competitive Cognition", *Management Science*, Vol. 44(1), 1998. 62-82.
- Connelly, F.M., and Clandinin, F.M. (1988) "Teachers as Curriculum Planners: Narratives of Experience, New York: Teachers College Press. 1988.
- DeAngelo, L. (1981) "Auditor Independence, 'Low Balling,' and Disclosure Regulation", *Journal of Accounting & Economics*, 3, 1981, 113--127.
- Elitzur, R. and Falk, H. (1996) "Planned Audit Quality", *Journal of Accounting and Public Policy*, Vol. 15, 1996, 247-269.
- Elliott, J. (1991) .*Action Research for Educational Change*. Buckingham: Open University Press.,
- Elsbach, K.D., and Glynn, M.A. (1996) "Believing Your own 'PR': Embedding Identification in Strategic Reputation", *Advances in Strategic Management*, 13, , 65-90.
- Eraut, M. (1994) "Developing Professional Knowledge and Competence, London: Falmer Press.,
- Feichtinger, G., Prskawetz, A., and Veliov, V.M. (2002)"Age-Structured Optimal Control in Population Economics", MPIDR Working Paper, WP 2002-045, September, 1-31.
- Feldman-Summers, S.A. and Kiesler, S.B. (1974)"Those Who are Number Two Try Harder: The Effect of Sex on Attributions of Causality", *Journal of Personality and Social Psychology*, Vol. 30,846-55.
- Ferrell, O.C., Fraedrich, J., and Ferrell, L. (2000), *Business Ethics*, New York: Houghton Mifflin.,
- Ferrell, O.C., and Fraedrich J. (1994), *Business Ethics*, Boston: Houghton Mifflin.,



- Fombrun, C.J. (1996) "Reputation: Realizing Value from the Corporate Image, Boston, Harvard Business School Press.
- Fombrun, C.J., and Shanley, M. (1990), "What's in a Name? Reputation Building and Corporate Strategy", *Academy of Management Journal*, Vol. 33(2), 233-258.
- Francis, J.R. (2004) "What do We Know about Audit Quality?" *The British Accounting Review*, Vol. 36:, 345-368.
- Frazier, P.A., Tix, A.P., and Barron, K.E. (2004) "Testing Moderator and Mediator Effects in Counseling Psychology Research", *Journal of Counseling Psychology*, Vol.51(1),115-134.
- Grant, R.M. (1991)"The Resource-Based Theory of Competitive Advantage: Implications for Strategy Formulation", *California Management Review*, Vol. 33(3),(Spring),114-135.
- Hall, R. (1993) "A Framework Linking Intangible Resources and Capabilities to Sustainable Competitive Advantage", *Strategic Management Journal*, Vol. 14, , 607-618.
- Henderson, H.V. (1984) "Regression Model for an Ordered Contingency-Table: An Example", *The New Zealand Statistician*, Vol. 19(2), , 15-21.
- Hofler, M., Brueck, T., Lieb, R., and Wittchen, H.-U. (2005)"Calculating Control Variables with Age at Onset Data to Adjust for Conditions Prior to Exposure", *Soc Psychiatry Psychiatr Epidemiol*, Vol. 40,731-736.
- Huber, V.L. (1989) "Comparison of the Effects of Specific and General Performance Standards on Performance Appraisal Decisions", *Decision Sciences*, Vol.20,545-57.
- Huber, V.L., Neale, M.A. and Northcraft, G.B. (1987) "Judgement by Heuristics: Effects of Ratee and Rater Characteristics and Performance Standards on Performance-Related Judgements", *Organizational Behavior and Human Decision Processes*, Vol. 40, 149-69.
- Jones, O. (1996) "Human Resources, Scientists, and Internal Reputation: The Role of Climate and Job Satisfaction", *Human Relations*, Vol. 49(3), , 269-294.
- Lai, K.-W. (2009) "Does Audit Quality Matter More for Firms with High Investment Opportunities?" *Journal of Accounting Public Policy*, Vol. 28, , 33-50.
- Lefkowitz, J. (2003) "Ethics and Values in Industrial-Organizational Psychology. Mahwah, NJ: Lawrence Erlbaum Associates.
- Leinhardt, G., Young, K.M., and Merriman, J. (1995) "Integrating Professional Knowledge: The Theory of Practice and the Practice of Theory", *Learning and Instruction*,Vol.5,401-408.
- Lellouch, J., and Schwartz, D.L. (1971) "Essai Therapeutique: Ethique Individuelle Ou Ethique Collective. Review of Institute International Statistic, Vol. 39, 127-136.
- Loebecke, J., Eining, M., and Willingham, J. (1989) "Auditors' Experience with Material Irregularities: Frequency, Nature, and Detectibility", *Auditing: A Journal of PracticeandTheory*,Vol.9(1),1-28.