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## New approach to teaching of ethics in accounting "introducing Islamic ethics into accounting education"

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### Abstract

Recent accounting scandals and financial frauds led to a focus on accounting ethics and the need for reviewing of accounting ethics education. Accountants have obligations to shareholders, creditors, employees, suppliers, the government, the accounting profession and the public at large; therefore, they have to remember responsibility in accounting profession. The existence of accounting standards and rules per se does not guarantee sound and appropriate financial reports, and lack of professional ethics can give an unrealistic picture of financial reports. Despite accounting standards and rules, without values and responsibilities, accountants can provide manipulated financial reports. Although, textbooks, case studies, articles and journals about accounting ethics have been used in accounting education programs, it seems that for developing and promoting ethical thinking, a reengineering in accounting education for identifying and planning ethical behavior based on ethics including humanizing accountants and self regulation in their work environment must be used. It needs a social planning to make accounting students in public or private universities and accounting organizations aware of ethical behavior. This study is a survey study that explores the theories and various approaches used for teaching ethics in accounting. The aim of this study is to introduce a new approach to ethics education in accounting profession by incorporating Islamic ethics in all courses of accounting education.

*Keywords:* Ethics, professional ethics, Islamic ethics, financial reports

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### 1. Introduction

The Concise Oxford Dictionary (1978) defines ethics as relating to morals and the treating of moral questions. Ethics also indicates a philosophical reflection on moral beliefs and practices (Abdul Rahman, 2003). Ethics is an essential requirement for a sound and healthy society. It is due to its positive individual, organizational, and social consequences that ethics has always provoked scholars, instructors, and organization managers to try to maintain and improve it (Samadi & Mahdavikhou, 2009). 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 ways or grids of analysis, modern or classic (Filipe et al., 2011). According to Islamic ethics, a person feels accountable to God. Therefore, he should be honest and fair in his activities. The basic assumption of this code is that Muslim accountants will be motivated to comply with such a code for reasons due to religious beliefs and as a means of obeying Allah's orders and refraining from things forbidden by Him (Abdul Rahman, 2003). Unfortunately, despite these orders the technological advancements as well as the attempts for gaining more comforts have caused individuals to pay more attention to the secular appearances and materialism; consequently, they tend to neglect and be inattentive to the spiritualities and moral discussions.

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The structure of the research is as follows: Section 2 presents Ethics in Accounting, Section 3 discusses the Islamic ethics and values, Section 4 describes Islamic Accounting, Section 5 presents Introducing Islamic Ethics into Accounting Education, and Section 6 shows conclusions.

## **2. Ethics in Accounting**

Accountants have obligations to shareholders, creditors, employees, suppliers, the government, the accounting profession and the public at large; therefore, they have to remember responsibility in accounting profession. Ethics is important to accountants and those who rely on information provided by accountants because ethical behavior entails taking the moral point of view. Ethics can be seen as a formal method of declaring to all that the occupation can be trusted (Carroll, 2005). Without accountants to ensure quality and integrity of financial information, the markets for capital would be by far less efficient, the cost of capital would be higher, and the standard of living would be lower (Wallman, 1995). Ethics education helps students identify the link between ethical decision-making and real-life behavior (Helps, 1994). Researchers in developed countries have published many studies on accounting ethics education. They have indicated that ethics education must be incorporated in business schools for the development of future generations (Caliyurt, 2007). According to MahdaviKhou, Internalizing and developing ethics in accounting profession lead to promoting quality of financial reporting (MahdaviKhou, 2010).

An ethical code of conduct is defined by the International Federation of Accountants (IFAC) as: “Principles, values, standards, or rules of behavior that guide the decisions, procedures and systems of an organization in a way that (a) contributes to the welfare of its key stakeholders, and (b) respects the rights of all constituents affected by its operations” (IFAC, 2007). 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 1997:178) includes a list of five fundamental principles which either expressly mention or clearly imply all of these qualities, along with other related qualities such as honesty, fair dealing, truthfulness, courtesy, skill and diligence (Gowthorpe, 2005). The absence of honesty in accounting is generally caused by the phenomenon of fraud. Unfortunately, fraud in the accounting environment is on the increase, causing enormous losses to firms, individuals, and society and creating a moral problem in the workplace. It takes place as corporate fraud, fraudulent financial reporting, white-collar crime, or audit failures (Riahi-Belkaoui, 1991).

## **3. Islamic Accounting**

The branch of accounting which sets its goals and performs all of its activities to achieve those goals ethically and objectively within the limits and boundary of Islamic Shari’ah is called Islamic Accounting. Therefore, the accounting systems which identifies, measures, records and analyzes the financial aspects of an entity on the basis of Islamic Shari’ah (That is, Rules and Principles of Islam) is termed as Islamic Accounting. (Ather & Ullah, 2009) According to Hameed, accounting process which provides appropriate information (not necessarily limited to financial data) to stakeholders of an entity will enable them to ensure that the entity is continuously operating within the bounds of the Islamic Shari’ah and delivering on its socioeconomic objectives to evaluate their own accountabilities to Allah (Hameed, 2000). As Islam has its own cohesive rules which dictate how a business should be run, the development of Islamic accounting theory and practice has to pursue these rules if they are to be of any relevance to sincere Muslim users.

Since the conceptual framework of Western based accounting systems has been developed recognizing the dichotomy between business morality and private morality, it will thus have limited relevance in societies which have revealed doctrines and morals that govern all social, economic and political aspects of life such as the case in Islamic societies (Sulaiman, 2003). In Islam, accounting system should function not only as a service activity providing financial information to the users and to the public at large, but, more importantly, accountants should discharge their accountability by providing information to enable society to follow God’s commandments. (Abdul Rahman, 2003). The new geo-economics of the Islamic world have shifted from Saudi Arabia, Egypt and Pakistan to new territories with the Malaysian and Bahraini Governments playing active roles in “modernizing” Islamic financial institutions through setting of accounting, auditing and corporate governance standards and promoting innovation of products in order to compete in the global market (Haniffa & Hudaib, 2010).

#### 4. Islamic ethics and values

In Islam, ethics governs all aspects of life. Prophet Muhammad (Peace be upon him) said: “I have not been sent except to perfect the ethical system (mukāram al-akhilāq)”. (Samadi & Mahdavihou, 2009). Islam has its own concept of ethics that are derived from the Holy Qur'an and Sunnah. In a manner similar to Weberian Protestantism, Islam provides the ideological foundation for a variety of personal attributes that promote economic development (Rokhman, 2010). Under Sharia led financial systems, more transparency, more disclosure and openness is required to ensure distributive justice. This has led to the establishment of Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) with the task to issue standards and guidelines according to Sharia principles for operations and financial reporting of Islamic Financial Institutions (Hanif and Muhammad Iqbal, 2010). As investors, Muslims not only need information related to financial indicators but also whether their actions comply or not with Sharia regulation (Harahap, 2002). Islamic scholars say: “Allāhu ta'ālā(God) created three things in humans: wisdom ('aql), spiritual heart (qalb), and carnal desires (nafs), We can see none of them. We can understand their existence by observing their effects or the things they do, or we know them because our religion teaches them to us. 'aql is called correct thinking wisdom, that conveys good things taught by the divine law to the spiritual heart, qalb decides to do what is right and nafs is excessively fond of worldly pleasures (Emrullah, & Hadimi, 2001). nafs if not checked and controlled, is prone to evil and will lead to perdition of human's promotion. Although, commercial activities are highly regarded in Islam, Muslims besides fulfilling their religious duties. According to (Haniffa & Hudaib) as stated in the Holy Qur'an:

O ye who believe! When the call is proclaimed to prayer on Friday (the day of assembly), hasten earnestly to the remembrance of Allah and leave off business (and traffic): That is best for you if ye but knew! And when the prayer is finished, then may ye disperse through the land, and seek of the bounty of Allah: and celebrate the praises of Allah often (and without stint): that ye may prosper (Haniffa & Hudaib, 2010).

#### 5. Introducing Islamic Ethics into Accounting Education

One of the fundamental weaknesses of the current curriculum seems to be the inappropriate time allocation for the teaching of ethically thinking along with accounting subjects. In current curriculum of accounting many hours are allocated to Cost Accounting, Management Accounting and Financial Accounting, but it seems that identifying and planning ethical behavior has been forgotten. Unfortunately, the existing curriculum does not allow universities to introduce such flexibility into their accounting programs (Wijewardena & Roudaki, 1997). Another undesirable feature of the current accounting curriculum is not the inclusion of ideological and religion-oriented subjects such as Islamic Morals, Islamic Ethics and Islamic Texts. These subjects increase the students' understanding of religious morals and help them develop their ethical personality.

The principle of professional behaviors existent in accounting have well expressed some of the moral and behavioral concepts. Most of these concepts are the components of the primary principles of morality. They correspond with the Islamic concepts of morality. One of the Islamic concepts of morality which has attracted special attention to itself in the rites of professional behavior and moral teaching in the field of accounting concerns the quality of earning income from the properly legitimate sources. This contents the legitimacy and illegitimacy obtaining of incomes. Legitimate incomes comply with the wisdom and heartfelt desires whereas the illegitimate ones agree with the carnal desires. Another concept entrenched in the Islamic morality is to consider the fact that God watches over human acts. The instruction of the very concept makes everybody follow the rites of professional behavior automatically. If somebody takes the above-mentioned concept into consideration, they will feel responsible for whatever they do; in addition, they avoid committing carnal practices. The next issue relevant to the concepts of Islamic morality deals with the examination of acts in the Resurrection Day. When individuals become acquainted with the issue and start teaching it, they will be urged to be alert and beware of their own responsibility for all the consequences of their worldly conducts.

The inclusion of this code of Islamic morality within the existent moral codes of rites for professional behavior will provide the grounds for the prevention of financial scandals, and thus the inclinations for the illegitimate activities will be aborted provided that adequate time and energy is allocated to instruct the principles.

## 6. Conclusion

Money and financial affairs play a key role in the professions such as accounting, commerce and economy. It may be the case that the aim of maximizing the fortune and increasing the assets contradicts with the moral issues since most of the trading corporations are involved in the competitions and income attainments. They rarely worry about the quality and moralization of the income they earn. Therefore, this will create the grounds for the introduction of the illegitimate activities such as fraud, embezzlement, money laundering, bribery, distortion and pretense. As a result, the current state entails the proper instruction of the moral issues including sincerity, honesty, moral commitments and trustworthiness. Reform is needed in the present accounting rules and procedures to align who with ethical thinking. It needs a social planning to make accounting students in public or private universities and accounting organizations aware of ethical behavior. In doing so, we ensure the future of the accounting profession, which will continue its historic role of fostering the success of the economy and the nation. Presenting the importance of Islamic ethical standards and teaching the importance of ethics, lead to summoning current and future accountants to their nobility.

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